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 2012

FINANCIAL HIGHLIGHTS

Unaudited	For the six months ended 30 June		
	2012	2011	Change
Revenue (RMB'000)	**395,962**	601,572	-34.2%
Gross Profit (RMB'000)	**155,402**	199,458	-22.1%
Gross Profit Margin	**39.2%**	33.2%	+6percentage points
Profit before tax (RMB'000)	**74,337**	111,558	-33.4%
Profit for the period attributable to owners of the parent (RMB'000)	**57,894**	90,056	-35.7%
Net Profit Margin	**14.6%**	15.0%	-0.4percentage point
Earnings per share-basic (RMB)	**0.0724**	0.1129	-35.9%
Interim dividend per share (HK$)	**0.015**	0.02	-25.0%

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

The board (the "Board") of directors (the "Directors") 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 2012 (the "period"). These interim results have been reviewed by the audit committee of the Company.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.015 per share for the year ending 31 December 2012, approximately amounting to a total sum of HK$12,000,000 (approximately equivalent to RMB9,836,000).

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Notes	**RMB'000**	*RMB'000*
REVENUE	3	**395,962**	601,572
Cost of sales		**(240,560)**	(402,114)
Gross profit		**155,402**	199,458
Other income and gains	3	**6,023**	8,279
Selling and distribution costs		**(44,994)**	(52,880)
Administrative expenses		**(24,585)**	(27,037)
Other expenses		**(15,674)**	(15,500)
Finance costs	4	**(1,835)**	(762)
PROFIT BEFORE TAX	5	**74,337**	111,558
Income tax expense	6	**(16,443)**	(21,502)
PROFIT FOR THE PERIOD		**57,894**	90,056
Attributable to:			
Owners of the parent		**57,894**	90,056
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
– basic, for profit for the period		**RMB0.0724**	RMB0.1129
– diluted, for profit for the period		**RMB0.0723**	RMB0.1124

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
PROFIT FOR THE PERIOD	**57,894**	90,056
Exchange differences	**(85)**	(588)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(85)**	(588)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**57,809**	89,468
Attributable to:		
Owners of the parent	**57,809**	89,468

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2012 (Unaudited) RMB'000**	31 December 2011 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**298,859**	278,323
Land use rights		**44,859**	45,380
Construction in progress		**260,903**	228,074
Intangible assets		**22,080**	17,604
Deferred tax assets		**1,071**	1,738
Total non-current assets		**627,772**	571,119
CURRENT ASSETS			
Inventories	9	**146,740**	176,010
Trade and notes receivables	10	**451,522**	442,989
Prepayments, deposits and other receivables		**18,137**	12,892
Equity investments at fair value through profit or loss		**4,948**	4,707
Pledged bank deposits		**83,300**	88,294
Cash and cash equivalents		**154,549**	97,805
Total current assets		**859,196**	822,697
CURRENT LIABILITIES			
Trade and notes payables	11	**268,756**	269,212
Other payables and accruals		**56,863**	71,054
Interest-bearing bank loans		**196,176**	110,458
Income tax payable		**9,284**	6,482
Total current liabilities		**531,079**	457,206
Net current assets		**328,117**	365,491
Total assets less current liabilities		**955,889**	936,610
NON-CURRENT LIABILITIES			
Government grants		**1,945**	1,500
Deferred tax liability		**19,493**	16,232
Total non-current liabilities		**21,438**	17,732
Net assets		**934,451**	918,878

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*continued*)

	Notes	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**84,814**	84,707
Reserves		**849,637**	790,044
Proposed final dividend		**-**	44,127
Total equity		**934,451**	918,878

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Net cash flows from operating activities	**101,492**	17,420
Net cash flows used in investing activities	**(90,109)**	(61,625)
Net cash flows from/(used in) financing activities	**45,393**	(53,115)
Net increase/(decrease) in cash and cash equivalents	**56,776**	(97,320)
Cash and cash equivalents at 1 January	**97,805**	210,975
Effect of foreign exchange rate changes, net	**(32)**	(1,339)
Cash and cash equivalents at 30 June	**154,549**	112,316

ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

Cash and bank balances	**154,549**	107,316
Short term deposits	**-**	5,000
	154,549	112,316

NOTES:

1. CORPORATE INFORMATION AND BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

1.1 Corporate Information

Dawnrays Pharmaceutical (Holdings) Limited (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 registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business is located at Suites 3212-13 Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

The Group is principally engaged in the development, manufacture and sale of non-patented pharmaceutical medicines including intermediate pharmaceutical, bulk medicines and finished drugs. In the opinion of the Directors, Fortune United Group Limited, a company incorporated in the British Virgin Islands, is the ultimate holding company of the Company.

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

1.2 Basis of preparation

The unaudited interim condensed consolidated financial statements for the six-month period ended 30 June 2012 (collectively defined as the "interim financial information") have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB") and applicable disclosure provisions of Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value.

The interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated. These interim condensed consolidated financial statements have not been audited. These interim condensed consolidated financial statements were approved and authorized for issue by the Board on 24 August 2012.

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

The interim financial information does not include all the information and disclosures required in the financial statements, and should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2011.

1.3 Significant Accounting Policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in those annual financial statements.

1. CORPORATE INFORMATION AND BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (*continued*)

1.3 Significant Accounting Policies (*continued*)

There are no amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

- IFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

  There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 'Financial instruments: Recognition and measurement' and have not been changed. The Group has not yet decided when to adopt IFRS 9.

- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after1 January 2013.

- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

1. CORPORATE INFORMATION AND BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (*continued)*

1.3 Significant Accounting Policies (*continued)*

- IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

- IAS 19 (Amendment) 'Employee benefits' eliminate the corridor approach and calculate finance costs on a net funding basis. The group is yet to assess the amendments to IAS 19's impact.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

2. SEGMENT INFORMATION

The Group organizes the business units based on their products. For management purposes, the Group's business is organized into the following two reportable segments :

a) Manufacture and sale of intermediates and bulk medicines
b) Manufacture and sale of finished drugs (including antibiotics finished drugs and non-antibiotics finished drugs)

Management monitors the operating results of these operating segments for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, government grants, dividend income, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged bank deposits, cash and cash equivalents, equity investments at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

2. SEGMENT INFORMATION *(continued)*

The following is an analysis of the Group's revenue and results by operating segment for the period:

Six months ended 30 June 2012 (unaudited)	Intermediates and bulk medicines RMB'000	Finished drugs RMB'000	Elimination of intersegment sales RMB'000	Total RMB'000
Segment Revenue:				
Sales to external customers	156,469	239,493	-	395,962
Intersegment sales	47,773	-	(47,773)	-
	204,242	239,493	(47,773)	395,962
Segment Results	(13,026)	118,071	-	105,045
Reconciliation:				
Unallocated gains				3,404
Corporate and other unallocated expenses				(32,277)
Finance costs				(1,835)
Profit before tax				74,337

Six months ended 30 June 2011 (unaudited)	Intermediates and bulk medicines RMB'000	Finished drugs RMB'000	Elimination of intersegment sales RMB'000	Total RMB'000
Segment Revenue:				
Sales to external customers	335,980	265,592	-	601,572
Intersegment sales	68,529	-	(68,529)	-
	404,509	265,592	(68,529)	601,572
Segment Results	32,635	114,015	-	146,650
Reconciliation:				
Unallocated gains				6,371
Corporate and other unallocated expenses				(40,701)
Finance costs				(762)
Profit before tax				111,558

2. SEGMENT INFORMATION *(continued)*

The following is an analysis of the Group's assets by operating segment:

As at 30 June 2012 (unaudited)	Intermediates and bulk medicines RMB'000	Finished drugs RMB'000	Total RMB'000
Segment Assets:	595,074	467,121	1,062,195
Reconciliation:			
Corporate and other unallocated assets			424,773
Total assets			1,486,968

As at 31 December 2011 (audited)	Intermediates and bulk medicines RMB'000	Finished drugs RMB'000	Total RMB'000
Segment Assets:	643,964	390,173	1,034,137
Reconciliation:			
Corporate and other unallocated assets			359,679
Total assets			1,393,816

3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**395,962**	601,572
Other income		
Bank interest income	**1,854**	1,468
Dividend income from equity investments at fair value through profit or loss	**51**	52
Government grants	**2,381**	6,020
Others	**1,709**	674
	5,995	8,214
Gains		
Gain on disposal of equity investments at fair value through profit or loss	**28**	65
	6,023	8,279

4. FINANCE COSTS

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**1,835**	762
	1,835	762

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of inventories sold	**240,560**	402,114
Depreciation	**13,959**	15,094
Recognition of land use rights *	**521**	521
Research and development costs:		
Amortisation of intangible assets **	**547**	547
Current period expenditure	**11,831**	12,364
	12,378	12,911
Minimum lease payments under operating leases:		
Buildings	**872**	853
Employee benefit expense (including directors' remuneration) :		
Wages and salaries	**29,457**	35,994
Retirement benefits	**3,348**	3,429
Accommodation benefits	**1,442**	1,418
Other benefits	**5,667**	5,936
Equity-settled share option expense	**1,196**	1,128
	41,110	47,905
Foreign exchange differences, net	**961**	96
Write-down of inventories to net realisable value	**1,779**	1,520
Fair value (gains)/losses, net:		
Equity investments at fair value through profit or loss	**(102)**	375
Loss on disposal of items of property, plant and equipment	**85**	29

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

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

6. INCOME TAX

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current income tax		
Current income tax charge	**12,904**	19,100
Adjustments in respect of current income tax in previous years	**(456)**	(1,734)
Deferred income tax	**3,995**	4,136
Total tax charge for the period	**16,443**	21,502

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

7. DIVIDENDS

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Dividend pertaining to the prior year declared in the six months ended 30 June	**44,197**	51,995
Interim – HK$0.015(2011: HK$0.02) per ordinary share	**9,836**	13,278

On 24 August 2012, the Company declared an interim dividend for the year ending 31 December 2012, at HK$0.015 per share, amounting to a total sum of approximately HK$12,000,000 (approximately equivalent to RMB9,836,000).

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on the profit for the period attributable to ordinary equity holders of the parent of RMB57,894,000(2011: RMB90,056,000) and the weighted average number of 799,106,989 ordinary shares (2011: 797,516,376 shares) in issue during the period.

The calculation of diluted earnings per share for the period is based on the profit for the period attributable to ordinary equity holders of the parent of RMB57,894,000 (2011: RMB90,056,000) and the weighted average number of 800,860,239 ordinary shares (2011: 801,061,605 shares) in issue during the period after adjusting for the effect of dilutive options.

9. INVENTORIES

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) *RMB'000*
Raw materials (at cost)	**33,817**	26,192
Work in progress (at cost or net realisable value)	**46,687**	68,024
Finished goods (at cost or net realisable value)	**66,236**	81,794
	146,740	176,010

10. TRADE AND NOTES RECEIVABLES

An aged analysis of the trade and notes receivables as at 30 June 2012, net of provisions, is as follows:

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) *RMB'000*
Trade receivables		
Outstanding balances with ages:		
Within 90 days	**161,681**	195,422
Between 91 and 180 days	**21,623**	12,528
Between 181 and 270 days	**23,816**	492
Between 271 and 360 days	**-**	-
Over one year	**8**	8
	207,128	208,450
Notes receivables		
Outstanding balances with ages:		
Within 90 days	**168,908**	37,782
Between 91 and 180 days	**74,986**	196,757
Between 181 and 270 days	**500**	-
	244,394	234,539
	451,522	442,989

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

Notes receivables amounting to RMB70,000,000 (as at 31 December 2011: RMB20,000,000) were pledged to secure bank loans.

11. TRADE AND NOTES PAYABLES

An aged analysis of the trade and notes payables as at 30 June 2012 is as follows:

	30 June 2012 (Unaudited)	31 December 2011 (Audited)
	RMB'000	*RMB'000*
Outstanding balances with ages:		
Within 90 days	**178,484**	72,695
Between 91 and 180 days	**86,616**	193,112
Between 181 and 270 days	**3,274**	2,596
Between 271 and 360 days	**126**	140
Over one year	**256**	669
	268,756	269,212

Trade payables are non-interest-bearing and are normally settled on 90-day terms. The carrying amounts of the trade and notes payables approximate to their fair values.

CHAIRMAN'S STATEMENT

RESULTS

The Group recorded revenue of approximately RMB395,962,000 for the six months ended 30 June 2012 (2011: RMB 601,572,000), which represents a decrease of 34.2% from the revenue of the corresponding period in 2011. Profit attributable to owners of the parent was approximately RMB57,894,000 (2011: RMB90,056,000), which was a decrease of 35.7% from the corresponding period in 2011. The decrease in turnover and profit was mainly attributable to relatively significant decline in the Group's sales of cephalosporin intermediates, bulk medicines and powder for injection compared with that for the corresponding period of last year. Sales of solid-dosage-forms (mainly comprising system specific medicines) approximated to that for the corresponding period of last year.

With the Ministry of Health's introduction of rectification program for national clinical application of antibacterial medicine in April 2011, the market for cephalosporin antibiotics was severely impacted. Despite various countermeasures adopted by the Group in such areas as production and sales in response towards the market movements, sales of downstream products related to cephalosporin antibiotics cooled down much faster than the market expectation under the great pressure mounted by the government policies, thus caused a drastic decline in prices and sales of 7-ACA, intermediates, bulk medicines and powder for injection in the overall market. As a result, the Group also suffered a severe impact over its sales of intermediates, bulk medicines and powder for injection.

As to solid-dosage-forms, even faced with the sluggish economic environment, by upholding the business philosophy of "utmost priority of product quality with safety and efficacy" in addition to products' relatively advantageous market foothold, the Group always maintains positive momentum and satisfactory gross profit margin for its sales of system specific medicines, such as "Anneizhen"(安內真) of cardiovascular system drugs as well as "Xikewei"(西可韋) of anti-allergic drugs, making positive contributions to the profitability of the Company. In addition, sales of "Leiyide"(雷易得)(Entecavir Dispersible Tablets), which treats liver diseases, is underway as scheduled. Its sales volume is growing steadily and it has become a profit increment of the Company. In July and August 2012, "Leiyide" has obtained product registration approval in Macau and Hong Kong respectively. The Group anticipates that, concurrently tackling well the sales in mainland China market, we will develop the sales of "Leiyide" in overseas markets.

OVERVIEW OF THE FIRST HALF OF 2012

Economic stagnation of 2011 in America and Europe continued to the first half of 2012. As a result of the debt crisis in European countries coupled with a deteriorating situation that challenged the banking sector in addition to various ineffective initiatives to stimulate economy launched by the US government, China's economic momentum was also slowing down. Compared against the corresponding period of last year, the Chinese market faced an increasing difficult business environment, forced major downward adjustment of profits in various sectors.

As to the pharmaceutical industry, with a view to upgrade the industry and to establish a sustainable medicines supply system that focuses on safety, efficiency, fairness and reasonableness, the central government promulgated and implemented a variety of policies in recent years, which weighed pressure on the operation of the industry. Furthermore, product homogeneity chronically plagued the pharmaceutical sector, created cutthroat competition amongst the industrial peers. This intensified the internal conflicts in the gloomy business environment. During the period under review, pressured by many factors, most Chinese pharmaceutical enterprises recorded a decrease in their sales and profit compared against the corresponding period of last year.

Although the market conditions were negative, supported and driven by the government's active industry policies, pharmaceutical enterprises overhauled areas, such as product research and development, GMP improvement, and marketing models, in order to adapt to the new situation. The Chinese pharmaceutical industry is currently entering into the critical phase of transformation, and the landscape for the pharmaceutical industry will look completely different in a foreseeable future. In a changing business environment rife with increasing competition, the Group, as one of the leading chemical pharmaceutical enterprises in China, will have control measures in place for various risks, while maintaining its steadfast pace to develop the pharmaceutical operation of the Group.

PROSPECTS

Over the last three years, the central government has vigorously promoted the reform of the Chinese medical and health system with immense investment resources, enabling the basic medical insurance system to cover 96% of the population nationwide. As all signs imply, during the "twelve five-year" period the government will continue with resource investment to solidify the achievement resulting from the medical reform, forming a medical insurance system collectively borne by the society, the government, and the individual. In such premise, the market anticipates that the Chinese pharmaceutical sector will maintain an average double-digit growth rate per annum in the next ten years. Therefore, the short-term market fluctuation might temporarily challenge the operation of the pharmaceutical sector. In the long run, however, the development potential of the Chinese pharmaceutical sector still remains to be very promising.

As a result of the strike-hard rectification of the use of antibiotics, sales of the relevant products are greatly impacted. Despite a sign showing the market for cephalosporin antibiotics stabilized in the second quarter of 2012, the Group will address the challenges in the foreseeable future through ongoing prudent manners to prepare well for the task of monitor and control.

The system specific medicines are one of the key projects of the Group for long-term development. The Company will continue with investment of financial resources and human resources on such project. In response to the disease spectrum shifting to the trend of chronological diseases due to the Chinese aging population, urbanization, and changes in people's lifestyle, our research and development team will focus on development of new products with immense market volume. Besides continuously enriching the existing product structure, the Group will maximize its resources to explore system specific medicines in other treatment areas, and take greatest effort to develop the Group into a leading manufacturer and supplier of specific medicines in China.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Against the backdrop of an unfavorable external environment, such as the contracting market for cephalosporin antibiotics, the Group strove to focus on production and sales of specific medicine products, and consolidated and increased the market share of system specific medicines. In respect of the new products, we launched academic promotion campaigns through its current marketing team, which reduced marketing expenses and accelerated the market promotion, in the hope of early realization of economic benefits to mitigate the impact brought by the declining sales of cephalosporin antibiotics. As to research and development of products, we conducted its independent research and development in addition to collaboration with advanced schools and scientific research facilities on research and development. Furthermore, we broadened the stream of new products and enriched the product portfolio through acquisition and introduction of new products, while speeding up the progress of marketing the key products. Impacted by the declining price of the overall domestic market for antibiotics and a portion of cephalosporin products in China, the Group recorded a significant decrease in sales and prices of cephalosporin intermediates and bulk medicines. By capitalizing on its competitive advantages in respect of quality and brand, we vigorously maintained its market share, further enhanced its technological improvement, and continued with better quality of the existent products, thus safeguarding the competitive edges of the Company's products.

PRODUCTION & SALES OPERATION

For the six months ended 30 June 2012 as compared to the corresponding period last year, production and sales volume of bulk medicines decreased by 50.0% and 40.7% respectively; production and sales volume of powder for injection decreased by 45.0% and 25.4% respectively; production of solid-dosage-forms increased by 8.0%, while the sales volume kept similar.

DEVELOPMENT OF NEW PRODUCTS

During the first half of 2012, nine products in total were registered for filing with the State and/or Provincial Food and Drug Administration. One product was already launched into the market, namely, Prulifloxacin bulk medicine and tablets, which was granted with a new drug certificate. Seven supplementary approvals were obtained.

HONOURABLE RECOGNITION DURING FIRST HALF OF 2012

In February 2012, Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. was granted with two patents for the new technological preparation.

In May 2012, Su Zhou Dawnrays Pharmaceutical Science and Technology Co., Ltd. was verified by ISO9001：2008 Certificate, ISO14001：2004 Certificate, and OHSAS18001：2007 Certificate.

CONSTRUCTION PROJECT OF ADDITIONAL PRODUCTION

The first phase construction project in Hedong Industrial Park of Suzhou Dawnrays Pharmaceutical Co., Ltd. is substantially completed and enters into the examination and acceptance procedures in phases.

The second phase construction project of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. is in its normal progress.

OUTLOOK

In 2012, the anti-infective drugs market in the PRC has still been curbed by restricted use of antibiotics medicines and tendering policies for essential drugs, and has also been affected by production suspension and reduction due to many enterprises proceeded to corporate restructuring upon implementation of new GMP standards. However, we have also seen the PRC government adopt multiple measures and take several initiatives to conduct health care reform, yielding some initial results. The financial input into the medical and health areas has recorded a month-on-month increase and the market capacity has been increased, particularly the market capacity of specific medicines for chronic diseases which has been increased rapidly.

With the Company's strategic objective in mind, the Group's management will continuously improve its management levels and operating efficiency and maintain the Group's steady development. In the second half of the year, we will focus on the following important works: 1. To take persistent efforts to research and develop new products. Through self-development and cooperative development, we try to obtain products with high market potential, high technology and added value, and expand the Group's product lines in the hope of exerting a positive effect on improving future results of the Company. 2. To rationalize the plan of the industry chains of antibiotics with adjustments consistent with the market orientation, while improving and optimizing the existing antibiotics products. After ensuring good quality, we manage cost control to maintain the profitable contribution of this product series, while ensuring improvement in quality, brand and technology. 3. To further modify the existing production facilities according to new GMP requirements so as to be in line with domestic and international advanced pharmaceutical standards.

FINANCIAL REVIEW

SALES AND GROSS PROFIT

For the six months ended 30 June 2012, the Group has achieved the turnover of approximately RMB395,962,000, a decrease of RMB205,610,000 and equivalent to a reduction of 34.2% compared with the corresponding period of last year. The reasons for the significant decrease in turnover were mainly because the Group positively reduced production and sale of unprofitable products as a result of the decrease in unit price and sales volume as affected by upstream raw material prices and the national industrial policies. Among them, the sales volume of intermediates and bulk medicines of cephalosporin antibiotics decreased by 40.7% compared with the corresponding period last year. Meanwhile, the sales volume of cephalosporin antibiotics powder for injection under finished drugs decreased by 25.4% compared with the corresponding period of last year.

Sales amount of finished drugs was approximately RMB239,493,000, of which the sales amount of "An" series accounted for approximately 43.6% of sales of finished drugs, and the sales amount of "Leiyide"(雷易得) accounted for approximately 11.2％ of sales of finished drugs.

Gross profit was approximately RMB155,402,000 and gross profit margin was continually increased by 6.0 percentage points to 39.2% from 33.2% as in the corresponding period of last year. The main reason for the increase in gross profit margin was attributable to the sales of intermediates and bulk medicines, the low gross profit products, accounted for the total turnover further decreased from 55.9% to 39.5% while the sales of finished drugs accounted for the total turnover increased substantially to 60.5% compared with the corresponding period of last year, which further optimized the product portfolio.

Export sales accounted for approximately 9.3% of the total turnover. The export destinations include more than ten countries including India, Russia and Switzerland.

TABLE OF TURNOVER ANALYSIS

PRODUCT	**TURNOVER (RMB'000)**			**SALES BREAKDOWN (%)**		
	For the six months ended 30 June			For the six months ended 30 June		
	2012	2011	Changes	**2012**	2011	Changes
Intermediates and Bulk Medicines	**156,469**	335,980	-179,511	**39.5**	55.9	-16.4
Finished Drugs	**239,493**	265,592	-26,099	**60.5**	44.1	16.4
Overall	**395,962**	601,572	-205,610	**100.0**	100.0	0.0

EXPENSES

During the period, the total expenses incurred were approximately RMB87,088,000, equivalent to 22.0% of turnover (2011: 16.0%). The total expenses decreased by approximately RMB9,091,000 compared with the corresponding period of last year, which was mainly attributable to decrease in transportation expenses, advertisement expenses under the selling expenses and decline in salary due to decrease in the number of employees.

SEGMENT PROFIT

For the period of six months ended 30 June 2012, segment results of intermediates and bulk medicines segment recorded losses of approximately RMB13,026,000, representing a year-on-year decrease of approximately RMB45,661,000 compared with the segment results for the first half of 2011, but had a month-on-month decrease of losses for approximately RMB13,305,000 compared with the segment result for the second half of 2011. The segment profit of finished drugs segment were approximately RMB 118,071,000, representing a year-on-year increase of approximately RMB4,056,000 compared with the first half of 2011.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

For the six months ended 30 June 2012, profit attributable to owners of the parent amounted to approximately RMB57,894,000,equivalent to a decrease of 35.7% compared with the corresponding period of last year. Such decrease was mainly because intermediates and bulk medicines segment continued with a status of loss for the second half of last year which affected the Group's overall profitability.

ANALYSIS ON THE RETURN ON ASSETS

As at 30 June 2012, net assets attributable to owners of the parent were approximately RMB934,451,000. Net return on net assets, which is defined as the profit attributable to owners of the parent divided by net assets attributable to owners of the parent, was 6.2% (2011: 10.3%). The current ratio and quick ratio was 1.62 and 1.34 respectively. Turnover days for trade receivables were approximately 94 days. The turnover days for inventory were approximately 121 days.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group held readily available cash and cash equivalents of approximately RMB154,549,000 (as at 31 December 2011: RMB97,805,000) . During the period, the net cash flows from operating activities was approximately RMB101,492,000 (2011: RMB17,420,000). Net cash flows used in investing activities was approximately RMB90,109,000 (2011: RMB61,625,000). Net cash flows from financing activities was approximately RMB45,393,000 (2011: -RMB53,115,000).

As at 30 June 2012, the debt ratio (defined as sum of interest-bearing bank loans over total assets) of the Group was 13.2% (as at 31 December 2011: 7.9%). As at 30 June 2012, the Group has a mortgage loan of HK$16,000,000 and short term bank loans of US$4,750,000 and HK$186,750,000 in total, which are on a floating interest rate basis at the loan interest rate of LIBOR plus 3% or HIBOR plus 1.5% to 2%. Among them, the time deposits of approximately RMB83,300,000 were pledged to banks to secure the bank loans of approximately HK$100,000,000. Certain Bank loans amounting to HK$79,750,000 were secured by the Group's PRC subsidiaries' notes receivables of RMB70,000,000 and the remaining bank loans were guaranteed by corporate guarantee of the Company and some of its subsidiaries.

As at 30 June 2012, the Group had the inventory balance of RMB146,740,000 (as at 31 December 2011: RMB176,010,000).

As at 30 June 2012, the Group had aggregate bank facilities of approximately RMB877,791,000 (as at 31 December 2011: RMB852,458,000).

As at 30 June 2012, the Group's capital commitments amounted to approximately RMB178,865,000 (as at 31 December 2011: RMB199,160,000), which mainly derived from the construction of workshops for non-cephalosporin bulk medicines and solid-dosage-forms preparation in Hedong Industrial Park in Suzhou Dawnrays Pharmaceutical Co., Ltd., the phase II of plant construction in Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd., the construction works for oral cephalosporin intermediates workshop in Su Zhou Dawnrays Pharmaceutical Science and Technology Co., Ltd. etc. The Group has sufficient financial and internal resources to bear the capital expenditure.

During the period, in light of the fact that the tenancy agreement concerning the Group's head office will be expired in November 2012 and it is expected that the landlord will significantly increase the rental upon renewal of the tenancy agreement, after taking into account the Group's needs, Dawnrays International Co., Ltd., an indirect wholly owned subsidiary of the Company, purchased a commercial property located in Wanchai from an independent third party for office use, at a total consideration of HK$36,380,000, and the Group's head office will be relocated after expiry of the existing tenancy agreement. The total consideration was settled from the Group's internal capital and the bank mortgage loans of HK$16,000,000.

In order to streamline the Group's structure, Dawnrays Pharma (Hong Kong) Ltd. proposed to transfer the equity interests of Guangdong Dawnrays Pharmaceutical Co., Ltd. the subsidiary of Dawnrays Pharma (Hong Kong) Ltd. to Dawnrays International Co., Ltd.. As at 30 June 2012, the relevant procedures are still undergoing.

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

FOREIGN EXCHANGE AND TREASURY POLICIES

As the Group's substantial business activities, assets and liabilities are denominated in Renminbi, the risk derived from the foreign exchange to the Group is not high. The treasury policy of the Group is to manage any risk of foreign exchange or interest rate (if any) only if it will potentially impose a significant impact on the Group. The Group continues to observe the foreign exchange and interest rate market, and may hedge against foreign currency risk with foreign exchange forward contracts and interest rate risk with interest rate swap contracts if necessary.

STAFF AND REMUNERATION POLICY

As at 30 June 2012, the Group employed approximately 1,212 employees and the total remuneration was approximately RMB41,110,000 (2011: RMB47,905,000). The Group regards human resources as the most valuable assets and truly understands the importance of attracting and retaining high-performance employees. The remuneration policy is generally based on the references of market salary index and individual qualifications. The Group provides its employees with other fringe benefits, including defined contribution retirement schemes, share option scheme and medical coverage. The Group also offers some of its employees stationed in the PRC with dormitory accommodation.

CHARGES ON ASSETS

Save for the Group's asset with the book value of HK$189,680,000 were pledged to secure credit facilities granted to its subsidiaries (as at 31 December 2011: RMB108,294,000), as at 30 June 2012, the Group had no other charges on its assets

CONTINGENT LIBILITIES

As at 30 June 2012, the Group had no material contingent liabilities (as at 31 December 2011: Nil).

PLANS FOR SIGNIFICANT INVESTMENTS AND EXPECTED SOURCE OF FUNDING

Save for those disclosed above in connection with capital commitments under the section "Liquidity and Financial Resources", the Group does not have any plan for material investments or acquisition of capital assets.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the six months period ended 30 June 2012, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

To the best knowledge, information and belief of the Directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (the "CG Code") (effective from 1 April 2012) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd. (the "Listing Rules") during the six months period ended 30 June 2012, other than code provision A.6.7 of the CG Code and the reason for deviation of which is explained below:

Code Provision A.6.7 of the CG Code- attendance of Non-executive Directors at general meetings
All Non-executive Directors (including Independent Non-executive Directors) attended the annual general meeting of the Company held on 18 May 2012 (the "AGM") other than one Non-executive Director who was not in position to attend the AGM due to an overseas commitment.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code, throughout the six months period ended 30 June 2012.

AUDIT COMMITTEE

For the six months ended 30 June 2012, the Company had an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises of three independent non-executive directors of the Company as at the date of this announcement.

The unaudited interim condensed consolidated financial statements of the Company for the six months ended 30 June 2012 have been reviewed by the audit committee before recommending it to the Board for approval.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday,17 September 2012 to Tuesday, 18 September 2012 (both days inclusive), for the purposes of ascertaining entitlements to the Company's interim dividend, during which period no transfer of shares will be registered.

Dividend warrants will be despatched to shareholders on or about Tuesday, 25 September 2012. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrars in Hong Kong, Tricor Abacus Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 14 September 2012.

Finally, the Board expresses appreciation and gratitude to all shareholders of the Company, business partners, and the management and employees for their support.

By Order of the Board
Li Kei Ling
Chairman

Hong Kong, 24 August 2012

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