



DAWNRAYS PHARMACEUTICAL (HOLDINGS) LIMITED

東瑞製藥(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

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:

COMBINED STATEMENT OF INCOME (UNAUDITED)

		For the six months ended 30 June	
	Note	2003 Rmb'000 (Unaudited)	2002 Rmb'000 (Unaudited)
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	4	<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	5	<u>69,245</u>	<u>15,873</u>
Earnings per share - Basic	6	<u>Rmb 0.0784</u>	<u>Rmb 0.0832</u>

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.

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
	<i>Rmb'000</i>	<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	<u>(238)</u>	<u>(160)</u>
Total operating revenue	<u>233,723</u>	<u>153,059</u>
Interest income from bank balances	139	59
Others	<u>22</u>	<u>142</u>
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 bank loans	631	457
Bank charges and others	<u>81</u>	<u>19</u>
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	<u>309</u>	<u>191</u>
Total staff costs	<u>11,187</u>	<u>6,252</u>
Research and development costs	<u>4,460</u>	<u>3,652</u>

4. 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
	<i>Rmb'000</i>	<i>Rmb'000</i>
	(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
	<i>Rmb'000</i>	<i>Rmb'000</i>
	(Unaudited)	(Unaudited)
Accounting profit subject to income tax	53,632	—
Non-taxable profit	<u>(2,497)</u>	<u>—</u>
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	<u>193</u>	<u>—</u>
Income tax expenses	<u><u>6,329</u></u>	<u><u>—</u></u>

5. **Dividends**

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

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.

6. 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.

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 of 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 (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 中國化學製葯工業協會, 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年中國醫藥統計年報) 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 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 continued 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 and 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.

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.

DETAILED INTERIM RESULTS ANNOUNCEMENT ON EXCHANGE'S WEBSITE

A detailed interim results announcement containing all the information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

By Order of the Board
Li Kei Ling
Chairman

Hong Kong, 29 August 2003