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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

The board of Directors ("Board") of Dawnrays Pharmaceutical (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2004 (the "Reported Period"), together with the unaudited comparative figures for the corresponding period in 2003, as follow:

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	For the six months ended 30 June 2004 *Rmb'000* (Unaudited)	2003 *Rmb'000* (Unaudited)
TURNOVER	3	252,905	233,723
Cost of Sales		(160,273)	(137,643)
GROSS PROFIT		92,632	96,080
Other revenue	3	654	161
Selling and distribution costs		(24,982)	(25,976)
Administrative costs		(20,886)	(10,966)
Other operating costs		(8,603)	(4,955)
PROFIT FROM OPERATING ACTIVITIES		38,815	54,344
Finance costs	3	(35)	(712)
PROFIT BEFORE TAX		38,780	53,632
Tax	4	331	(6,329)
PROFIT BEFORE MINORITY INTERESTS		39,111	47,303
Minority interests, net of taxes		5	(254)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		39,116	47,049
DIVIDENDS	5		
Final for previous year		29,840	69,245
Proposed interim for current year		12,760	12,760
		42,600	82,005
EARNINGS PER SHARE			
Basic	6	Rmb0.0489	Rmb0.0784

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 2004, amounting to a total sum of approximately HK$12,000,000 (equivalent to approximately Rmb12,760,000).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 27 September 2004 to Thursday, 30 September 2004 (both days inclusive), during which period no transfer of shares will be registered.

Dividend warrants will be despatched to shareholders on or about Friday, 8 October 2004. 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, 24 September 2004.

NOTES TO THE CONSOLIDATED 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 on 21 June 2003 to rationalize the Group's structure in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, pursuant to which the Company became the holding company within the Group.

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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies (Amendment) Ordinance 2003 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 audited annual financial statements for the year ended 31 December 2003.

3. **Profit before income tax**

	For the six months ended 30 June	
	2004	**2003**
	Rmb'000	*Rmb'000*
	(Unaudited)	(Unaudited)
Included in the profit before income tax are the following revenue items:		
Sale of goods	253,023	233,961
Less: Business tax and government surcharges	(118)	(238)
Total turnover	252,905	233,723
Interest income from bank balances	529	139
Dividend income from listed investments	62	—
Others	63	22
Total other revenue	654	161
Profit before income tax is arrived at after charging:		
Cost of the inventory sold	160,273	137,643
Amortization of deferred development costs	374	276
Amortization of land-use-rights	151	101
Depreciation	5,659	2,898
Loss on disposal of property, plant and equipment	1,160	130
Operating lease rental in respect of buildings	448	223
Realised and unrealised loss on investments in trading securities	84	—
Finance costs:		
Interest on bank loans	—	631
Bank charges and others	35	81
Total finance costs	35	712
Staff costs:		
Salaries and other staff costs	20,111	10,406
Retirement costs	1,507	472
Accommodation benefits	723	309
Total staff costs	22,341	11,187
Research and development costs	7,327	4,460

4. **Tax**

(a) *Major component of income tax expense*

The income tax expense charged to the consolidated income statement during the period ended 30 June 2004 was as follows:

	For the six months ended 30 June	
	2004	**2003**
	Rmb'000	*Rmb'000*
	(Unaudited)	(Unaudited)
Income tax expense	1,540	6,329
Tax refund	(1,871)	—
	(331)	6,329

No provision for Hong Kong profits tax has been made as the Group had no profits arising in Hong Kong during the six months ended 30 June 2004.

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 Pharmceutical Technology Co., Ltd ("Suzhou Dawnrays Technology") and Shanghai Dawnrays Chemical Co., Ltd ("Shanghai Dawnrays Chemical") , which operate in approved economic development zones of the PRC, are exempted from corporate income tax of the PRC for the two years starting from the first profitable year of operation, after setting off losses carried forward, and are entitled to a 50% relief from corporate income tax of the PRC for the following three years.

Suzhou Dawnrays Pharmaceuticals is in its fourth profitable year in 2004 and therefore the applicable corporate income tax rate of the PRC is 12%. However, Suzhou Dawnrays Pharmaceuticals obtained tax approval from the relevant tax authorities as it qualified as a foreign owned manufacturing enterprise engaging in technology-intensive and knowledge-intensive projects ("Double-intensive Enterprise"). 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 it will be subject to the corporate income tax of the PRC at a rate of 15% from 1 January 2006. It's 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. According to PRC tax laws and regulations, profits generated from the aforesaid additional capital is exempted from corporate income tax of the PRC for the two years starting from the first profitable year of operation, and is entitled to a 50% relief from corporate income tax of the PRC for the following three years. Thus profits generated from the aforesaid additional capital is exempted from corporate income tax of the PRC starting from 1 January 2004 up to 31 December 2005 and will be subject to the corporate income tax of the PRC at a rate of 7.5% from 1 January 2006.

Shanghai Dawnrays Chemical is in its third 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 and Suzhou Dawnrays Technology had no assessable profits and therefore, no provision for income tax has been made during the Reported Period.

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

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

	For the six months ended 30 June	
	2004	**2003**
	Rmb'000	*Rmb'000*
	(Unaudited)	(Unaudited)
Accounting profit in the accompanying consolidated income statement	38,780	53,632
Applicable income tax rate	7.5%	12%
Tax at effective rate	2,908	6,436
Tax effect of income and expense items which are not assessable or deductible for income tax purpose	(1,368)	(107)
Current tax expenses	1,540	6,329

(b) *Tax refund*

As Suzhou Dawnrays Pharmaceuticals was granted the approval as Double-intensive Enterprise, as mentioned above, a refund of the excess of corporate income tax paid in 2003 in relation to the aforesaid reduced corporate income tax rate amounted to Rmb4,967,000 has been received by Suzhou Dawnrays Pharmaceuticals in July 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 pertaining to the year ended 31 December 2003. Pursuant to board resolutions of Dawnrays International Company Limited dated 18 December 2003 and 9 March 2004, Dawnrays International Company Limited re-invested the aforesaid dividend of Rmb82,205,630 into Suzhou Dawnrays Pharmaceuticals. Such profit re-investment was approved by the Ministry of Commerce of the PRC in June 2004. According to PRC tax laws and regulations, a tax refund in relation to the aforesaid re-investment amounted to Rmb9,708,000 was accrued in year 2003, based on the then effective corporate income tax of the PRC of 12%. Owing to the aforesaid Double-intensive Enterprise tax concession obtained in 2004 which would have retroactive effect from 1 January 2003, the tax refund in relation to the aforesaid re-investment would be reduced to approximately Rmb6,612,000. The over-accrued tax refund amounted to Rmb3,096,000 was charged to tax expense during the Reported Period.

The net tax refund was therefore Rmb4,967,000 less Rmb 3,096,000 equalled RMB1,871,000.

5. **Dividends**

	For the six months ended 30 June	
	2004	**2003**
	Rmb'000	*Rmb'000*
	(Unaudited)	(Unaudited)
Final dividend pertaining to the prior year declared in the six months ended 30 June	29,840	69,245
Proposed interim dividend - HK$0.015 (2003: HK$0.015) per share	12,760	12,760

On 24 August 2004, the Company declared an interim dividend for the year ending 31 December 2004, at HK$0.015 per share, amounting to a total sum of approximately HK$12,000,000 (equivalent to approximately Rmb12,760,000).

6. **Earnings per share**

The calculation of basic earnings per share for the six months ended 30 June 2004 is based on the unaudited consolidated profit attributable to shareholders of approximately Rmb39,116,000 (2003: Rmb47,049,000) and the weighted average of 800,000,000 shares (2003: 600,000,000 shares) in issue during the six-month period.

The employee share options outstanding did not have a material dilutive effect on the basic earnings per share.

BUSINESS REVIEW

1. Production & Sales Operation

Suzhou Dawnrays Pharmaceuticals Co., Ltd. has completed the national review for GMP certificate of the original production process system of cephalosporin bulk medicines in powder for injection form and solid form of system specific medicine. The transformation-process of the newly developed production line system of cephalosporin antibiotics has been completed, of which the GMP certificate is granted. Also, the GMP certificate of the newly developed type in solid form has been granted.

A total of 27.84 million vials of cephalosporin medicine in powder for injection form, 203.80 tonnes of bulk medicine and 3.62 million boxes of system specific medicine in oral form were produced during the Reported Period.

During the Reported Period, the sales quantity of cephalosporin medicine in powder for injection form was 30.91 million vials, representing an increase of 29% as compared with the sales quantity of the corresponding period last year. The sales quantity of bulk medicine was 132.20 tonnes, which grew by 54% as compared with the sales quantity of the corresponding period last year. The sales quantity of system specific medicine in oral form was 3.61 million boxes, which was increased by 48% as compared with the sales quantity of the corresponding period last year. With the markets in over 10 countries among Europe, South America and Asia, worth of totaling 4% of total sales of the Group, the growth of increase in export sales in overseas market is being rapid, and the export sales increased 13 times compared with the same period of last year.

2. Products In The Pipeline

During the Reported Period, the Group has been awarded by the State Food and Drug Administration of the PRC ("SFDA") 11 production permits, of which two are for the new bulk medicines, namely Cefuroxime Sodium Sterile and Cefixime. The other 5 clinical permits of the Group are now under the clinical-trial-process. Currently there are 11 new products being developed by the Research and Development Centre of the Group. Research and Development team, having had a completed survey covering the local market and global market, trend of frequent illness, trend of overall adjustment of medicine development and analysis of the outlook for all kinds of medicine markets, and incorporated the Group's special features and the direction of research and development, completed the preliminary report on the development of products. As a result, the first 16 development projects have been confirmed and implemented.

3. **Capital Expenditure**

The construction work of the workshop for the production of cephalosporin bulk medicines, with the budgeted capital expenditure of Rmb57.62 million and an annual capacity of 450 tonnes, has been completed. The assembling-stage has been under way.

The Cefuroxime Sodium Sterile project and servent recycled extension project, which will cause capital expenditure of Rmb7 million in aggregate, both the relevant craftsmanship design and selection-process for suitability in terms of facilities/features have been confirmed and completed, and implementation stage has commenced in July 2004.

4. **Honourable Recognition**

Both the medicines, Amlodipine Besylate as specified as the treatment for hypertension and Cetirizine Hydrochloride as specified as the treatment for anti-allergic, have earned the honourable name "The innovative high-technology products of Suzhou".

PROSPECTS

Various cephalosporin products of the Group have been the result of the core crystallization technology. Since mid 2003, the Group has extensively increased the capital expenditure and expanded the production, thereby achieving noticeable effects. During the Reported Period, in response to the National Committee of Development & Reformation, PRC's announcement of an order to be complied of lowering the prices of 24 species anti-infective drugs in June 2004, the Group voluntarily carried the effect of price cuts reasonably further in order to have better connection with sales channels with a view to increasing market share and further reinforcing brand recognition. Despite the decline of net profit from the sales of powder for injection form in the first half year of 2004 as a result of its price cuts by order of the National Committee of Development & Reformation, PRC in the first half year of 2004, the Group is expecting that the sales in the second half year of 2004 is bound to increase significantly once the above-mentioned strategic programs are confirmed.

The directors of the Group noted the situation that numerous patents for antibiotics and system specific medicines possessed by multinational pharmaceutical companies gradually are being due to expire in few years ahead, compounded with global (Europe and Asia) trends of paramount expenditures on social medical care with succession of deficit account, where generic drugs with high quality at reasonable price would take the advantage to take part profoundly in the marketplace.

Since the Group became a listed group, with every effort that ensures a steady growth in mainland China's market share, the Group has been in the process of a global strategy that will lead the Group's products to the worldwide marketplaces, for which the Group has been preparing and in position to deal progressively with such aspects as quality standard recognition, legal documents preparation, carving out a niche and etc.

Meanwhile, the Group continues to recruit high-talented professionals with the expectation that the reinforcement of the expansion capability of higher profitable system specific medicine can be made more rapidly in the second half of year 2004. In addition, it is expected to be one of the lucrative sources of revenue.

FINANCIAL REVIEW

Sales and Gross Profit

During the six months ended 30 June 2004 (the "Reported Period"), the Group recorded sales income of approximately Rmb252,905,000, representing an increase of 8.2% as compared with the corresponding period last year. Gross profit was approximately Rmb92,632,000, a decrease of 3.6% as compared with the corresponding period last year. Gross profit margin was 36.6% (2003: 41.1%). The main reasons for the fall in gross profit margin are as follows: firstly, the Group took the initiative in reducing prices of cephalosporin preparation medicine in powder for injection form to consolidate and increase market share; and secondly, the Group increased proportion of sales of bulk medicine that have relatively lower gross profit margin.

During the Reported Period, sales of bulk medicine amounted to Rmb137,094,000, representing an increase of 22.9% as compared with the corresponding period last year. Sales of bulk medicine accounted for 54.2% of total sales (2003: 47.7%). Gross margin of bulk medicine in the Reported Period was approximately 21.6% (2003: 21%).

During the Reported Period, sales of preparation medicine in powder for injection form amounted to Rmb88,790,000, representing a drop of 15.7% as compared with the corresponding period last year. Sales of preparation medicine in powder for injection form accounted for 35.1% of total sales (2003: 45.1%). Gross margin of preparation medicine in powder for injection form in the Reported Period was approximately 47.1% (2003: 52%).

During the Reported Period, sales of system specific medicine amounted to Rmb27,100,000, representing an increase of 60% as compared with the corresponding period last year. Sales of system specific medicine accounted for 10.7% of total sales (2003: 7.2%). Gross margin of system specific medicine in the Reported Period was approximately 78.3% (2003: 69%).

Expenses

Total expenses incurred during the Reported Period amounted to approximately Rmb54,507,000, an increase of 27.9% over the corresponding period in the previous year. Total expenses as a percentage of sales was 21.6% (2003: 18.2%).

Of which, selling and distribution costs amounted to Rmb24,982,000, a drop of 3.8% over the corresponding period in the previous year. Selling and distribution cost as a percentage of sales reduced to 9.9% (2003: 11.1%).

Administrative costs and other operating costs amounted to Rmb29,489,000, an increase of 85.2% over the corresponding period in the previous year, and accounted for 11.7% as a percentage of sales (2003: 6.8%). The increase was due to expenses incurred by Suzhou Dawnrays Chemical Co., Ltd., increased expenses incurred by the Hong Kong head office, and significant increase in research and development expenditures as the Group embarks on research and development projects which are expected to materialise in the future. Financial cost amounted to Rmb35,000 (2003: Rmb712,000).

Profit Attributable to Shareholders

During the Reported Period, profit attributable to shareholders was Rmb39,116,000, an approximate 16.9% decline compared with the corresponding period last year.

Here are the major causes of the above-mentioned decline in net profit as follows:

1. In April and May of 2004, prior to the announcement made by the National Committee of Development & Reformation, PRC of the necessity of retail price cuts, distributors and top management of hospitals had in mind the thought of anticipating a significant price cuts. With this in mind, they then ceased to make further purchases in order to consume their existing inventories to capitalise expected lower price of the product. In consequence, the sales of the Group's cephalosporin powder for injection in April and May in 2004 declined accordingly;

2. In the first half year of 2004, the Group strengthened the power of innovative research & development for new products. Research and Development expenditure amounted to Rmb7,327,000 (the first half year of 2003: Rmb4,460,000);

3. The staff of technology division, sales and marketing division and key management were awarded bonus in the first half year of 2004. The total sum was approximately Rmb5,260,000;

4. In the first half year of 2004, the Hong Kong head office incurred operating cost of Rmb4,615,000, as compared with only Rmb929,000 of the corresponding period last year prior to listing.

During the Reported Period, with average total assets of Rmb580,484,000, the Group realised net profit attributable to shareholders of Rmb39,116,000. Net Profit margin in the Reported Period was approximately 15.5%. Half year Return on Equity (defined as profit attributable to shareholders for the six months ended 30 June 2004 over average equity) was 10.3%.

Cashflow

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

1) Net cash inflows from operating activities were Rmb57,553,000 during the Reported Period.

2) Expenditures on construction projects and purchases of fixed assets amounted to Rmb31,747,000.

3) Profit distributions (including dividend paid to a minority shareholder) amounted to Rmb30,128,000.

On 30 June 2004, the Group has monetary funds and time deposits of Rmb125,907,000 in hand in aggregate, and no bank loans.

Liquidity, financial resources and capital structure

As at 30 June 2004, the Group's current assets amounted to approximately Rmb389,846,000, whilst current liabilities was approximately Rmb219,168,000. Net current assets were approximately Rmb170,678,000.

As at 30 June 2004, the Group has aggregate bank facilities of approximately Rmb387,000,000, which was secured over certain of the Group's buildings, machinery and equipment.

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

No interest was capitalized by the Group during the Reported Period.

As at 30 June 2004, the Group's capital commitments amounted to approximately Rmb90,921,000 which will be funded by proceeds from listing and by internal resources.

Financial management, financial instruments and exchange rate risk

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

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

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

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

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

Significant investments

The construction work of the workshop for the production of cephalosporin bulk medicines, with the budgeted capital expenditure of Rmb57,620,000 and an annual capacity of 450 tonnes, has been completed. The assembling-stage has been under way. The Cefuroxime

Sodium Sterile project and servent recycled extension project, which will cause capital expenditure of Rmb7,000,000 in aggregate, both the relevant craftsmanship design and selection-process for suitability in terms of facilities/features have been confirmed and completed, and implementation stage has commenced in July 2004. The Group plans to fund the aforesaid investments by internal resources. Save as disclosed herein, the Group did not have significant investments or material acquisitions or disposals of subsidiary and affiliated company during the Reported Period.

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 Group's most valuable competitive advantage. The Group provides a competitive remuneration policy.

As at 30 June 2004, the Group employed approximately 802 employees (30 June 2003: approximately 600 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 Rmb22,341,000 (2003: Rmb11,187,000). The main reasons for the increase in staff cost are as follows: firstly, staff of technology division, research and development division and key management were awarded a bonus of Rmb5,260,000 in the first half year of 2004, and secondly, more staff were recruited in our Suzhou Chemical plant, our new production workshop in Suzhou Dawnrays Pharmaceuticals Co., Ltd. and in our sales division.

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

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

Charge on assets

As at 30 June 2004, buildings and machinery and equipment with net book values of approximately Rmb3,500,000 and Rmb9,400,000 respectively, were pledged to banks to obtain credit facilities. The pledge on buildings was subsequently released by banks in August 2004.

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

Segment information

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

Contingent liabilities

As at 30 June 2004, the Group had no material contingent liabilities (30 June 2003: Nil).

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 2004.

CORPORATE GOVERNANCE

The Company has complied with Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited during the six-month period ended 30 June 2004.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2004, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

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

During the period, the Audit Committee met one time. The Audit Committee has reviewed this unaudited interim results for the six months ended 30 June 2004 and endorses the accounting treatment adopted by the Group.

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, 24 August 2004

As at the date of this announcement, the directors of the Company are LI Kei Ling (executive director, Chairman of the Board), HUNG Yung Lai (executive director), ZHANG Jing Xing (executive director), LAM Kam Wah (executive director), LI Tung Ming (executive director), XU Kehan (executive director), PAN Xue Tian (independent non-executive director) and LEE Cheuk Yin Dannis (independent non-executive director).