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 2011

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2011	2010	Change
Unaudited	**RMB'000**	*RMB'000*	%
Revenue	**601,572**	626,357	-4.0
Gross Profit	**199,458**	199,736	-0.1
Profit before tax	**111,558**	107,786	3.5
Profit for the period attributable to owners of the parent	**90,056**	87,500	2.9
Earnings per share-basic (RMB)	**0.1129**	0.1106	2.1
Interim dividend per share (HK$)	**0.02**	0.02	0.0

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

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 2011 (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$0.02 per share for the year ending 31 December 2011, approximately amounting to a total sum of HK$15,966,000 (approximately equivalent to RMB13,278,000).

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
	Notes	**RMB'000**	*RMB'000*
REVENUE	3	**601,572**	626,357
Cost of sales		**(402,114)**	(426,621)
Gross profit		**199,458**	199,736
Other income and gains	3	**8,279**	5,545
Selling and distribution costs		**(52,880)**	(52,805)
Administrative expenses		**(27,037)**	(24,789)
Other expenses		**(15,500)**	(19,771)
Finance costs	4	**(762)**	(130)
PROFIT BEFORE TAX	5	**111,558**	107,786
Income tax expense	6	**(21,502)**	(20,288)
PROFIT FOR THE PERIOD		**90,056**	87,498
Attributable to:			
Owners of the parent		**90,056**	87,500
Non-controlling interest		**-**	(2)
		90,056	87,498
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
– basic, for profit for the period		**RMB0.1129**	RMB0.1106
– diluted, for profit for the period		**RMB0.1124**	RMB0.1098

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
PROFIT FOR THE PERIOD	**90,056**	87,498
Exchange differences	**(588)**	27
OTHER COMPREHENSIVE (LOSS)/GAIN FOR THE PERIOD, NET OF TAX	**(588)**	27
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**89,468**	87,525
Attributable to:		
Owners of the parent	**89,468**	87,527
Non-controlling interest	**-**	(2)
	89,468	87,525

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2011 (Unaudited) RMB'000**	31 December 2010 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**344,308**	269,416
Land use rights		**45,900**	46,421
Construction in progress		**90,014**	117,030
Intangible assets		**15,323**	14,914
Deferred tax assets		**1,223**	1,264
Total non-current assets		**496,768**	449,045
CURRENT ASSETS			
Inventories	9	**240,374**	181,868
Trade and notes receivables	10	**494,991**	499,495
Prepayments, deposits and other receivables		**27,514**	15,830
Equity investments at fair value through profit or loss		**5,577**	6,244
Pledged bank deposits		**87,857**	-
Restricted bank deposits		**54,500**	49,700
Cash and cash equivalents		**112,316**	210,975
Total current assets		**1,023,129**	964,112
CURRENT LIABILITIES			
Trade and notes payables	11	**422,530**	427,044
Other payables and accruals		**55,936**	76,499
Bank advances for discounted bills		**-**	100
Interest-bearing bank loans		**141,833**	51,056
Income tax payable		**11,443**	9,827
Total current liabilities		**631,742**	564,526
Net current assets		**391,387**	399,586
Total assets less current liabilities		**888,155**	848,631
NON-CURRENT LIABILITIES			
Deferred tax liability		**13,865**	13,677
Total non-current liabilities		**13,865**	13,677
Net assets		**874,290**	834,954

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*continued*)

		30 June	31 December
		2011	2010
		(Unaudited)	(Audited)
	Notes	**RMB'000**	*RMB'000*
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**84,682**	84,578
Reserves		**789,608**	697,904
Proposed final dividend		**-**	52,472
		874,290	834,954
Non-controlling interest		**-**	-
Total equity		**874,290**	834,954

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Net cash flows from operating activities	**17,420**	132,169
Net cash flows used in investing activities	**(61,625)**	(63,354)
Net cash flows (used in)/from financing activities	**(53,115)**	2,749
Net (decrease)/increase in cash and cash equivalents	**(97,320)**	71,564
Cash and cash equivalents at 1 January	**210,975**	86,450
Effect of foreign exchange rate changes, net	**(1,339)**	77
Cash and cash equivalents at 30 June	**112,316**	158,091

ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

Cash and bank balances	**107,316**	158,091
Short term deposits	**5,000**	-
	112,316	158,091

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 2011 (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 condensed consolidated interim financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated. These condensed consolidated interim financial statements have not been audited. These condensed consolidated interim financial statements were approved and authorized for issue by the Board on 22 August 2011.

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 2010.

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 2010, as described in those annual financial statements.

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

Exceptional items are disclosed and described separately in the financial information where it is necessary to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

a) New and amended standards adopted by the Group.
The following new standard and amendment to standard are mandatory for the first time for the financial year beginning 1 January 2011.

- IAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:
  - The name of the government and the nature of their relationship;
  - The nature and amount of any individually significant transactions; and
  - The extent of any collectively-significant transactions qualitatively or quantitatively.

  It also clarifies and simplifies the definition of a related party.

- Amendment to IAS 34 'Interim financial reporting' is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in IAS34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

b) Amendments and interpretations to existing standards effective in 2011 but not relevant to the Group

- Amendment to IFRIC 14 'Prepayments of a minimum funding requirement' is effective for annual periods beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.
- Amendment to IAS 32 'Classification of rights issues' is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.
- IFRIC 19 'Extinguishing financial liabilities with equity instruments' is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.
- Third improvements to International Financial Reporting Standards (2010) were issued in May 2010 by IASB, except for amendment to IAS 34 'Interim financial reporting' as disclosed in note 3(a) and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes, all are not currently relevant to the Group. All improvements are effective in the financial year of 2011.

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

c) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 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 2013 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.

- IAS 12 (Amendment) 'Deferred tax: Recovery of underlying assets' introduces an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012 with early adoption permitted.

- IFRS 7 (Amendment) 'Disclosures – Transfers of financial assets' introduces new disclosure requirement on transfers of financial assets. Disclosure is required by class of asset of the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. The gain or loss on the transferred assets and any retained interest in those assets must be given. In addition, other disclosures must enable users to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. The disclosures must be presented by type of ongoing involvement. For example, the retained exposure could be presented by type of financial instrument (such as guarantees, call or put options), or by type of transfer (such as factoring of receivables, securitisations or securities lending). The amendment is applicable to annual periods beginning on or after 1 July 2011 with early adoption permitted.

2. SEGMENT INFORMATION

The Group organizes the business units based on their products. In previous years, the Group operated and managed its business as a single segment that included the manufacture and sale of pharmaceutical products. In line with the business growth, the Group's chief operating decision maker has started to review results of individual business units instead of consolidated

2. SEGMENT INFORMATION *(continued)*

results when making decisions about allocating resources and assessing performance of the Group since the second half of 2010. 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, restricted 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.

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

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)*

Six months ended 30 June 2010 (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	393,399	232,958	-	626,357
Intersegment sales	70,458	-	(70,458)	-
	463,857	232,958	(70,458)	626,357
Segment Results	69,307	77,502	-	146,809
Reconciliation:				
Unallocated gains				4,499
Corporate and other unallocated expenses				(43,392)
Finance costs				(130)
Profit before tax				107,786

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

As at 30 June 2011 (unaudited)	Intermediates and bulk medicines RMB'000	Finished drugs RMB'000	Total RMB'000
Segment Assets:	785,403	373,151	1,158,554
Reconciliation:			
Corporate and other unallocated assets			361,343
Total assets			1,519,897

As at 31 December 2010 (audited)	Intermediates and bulk medicines *RMB'000*	Finished drugs *RMB'000*	Total *RMB'000*
Segment Assets:	791,419	257,067	1,048,486
Reconciliation:			
Corporate and other unallocated assets			364,671
Total assets			1,413,157

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	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**601,572**	626,357
Other income		
Bank interest income	**1,468**	468
Dividend income from equity investments at fair value through profit or loss	**52**	103
Government grants	**6,020**	3,749
Others	**674**	1,225
	8,214	5,545
Gains		
Gain on disposal of equity investments at fair value through profit or loss	**65**	-
	8,279	5,545

4. FINANCE COSTS

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest on bank advances for discounted bills	**-**	-
Interest on bank loans wholly repayable within five years	**762**	130
	762	130

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of inventories sold	**402,114**	426,621
Depreciation	**15,094**	12,284
Recognition of land use rights *	**521**	521
Research and development costs:		
Amortisation of intangible assets **	**547**	459
Current period expenditure	**12,364**	9,888
	12,911	10,347
Minimum lease payments under operating leases:		
Buildings	853	753
Employee benefit expense (including directors' remuneration) :		
Wages and salaries	**35,994**	33,276
Retirement benefits	**3,429**	3,412
Accommodation benefits	**1,418**	1,316
Other benefits	**5,936**	5,174
Equity-settled share option expense	**1,128**	133
	47,905	43,311
Foreign exchange differences, net	**96**	169
Write-down of inventories to net realisable value	**1,520**	8,220
Fair value losses, net:		
Equity investments at fair value through profit or loss	**375**	557
Loss on disposal of items of property, plant and equipment	**29**	244

* 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	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current income tax		
Current income tax charge	**19,100**	18,722
Adjustments in respect of current income tax of previous years	**(1,734)**	(1,497)
Deferred income tax	**4,136**	3,063
Total tax charge for the period	**21,502**	20,288

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	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Dividend pertaining to the prior year declared in the six months ended 30 June	**51,995**	34,851
Interim – HK$0.02(2010: HK$0.02) per ordinary share	**13,278**	13,877

On 22 August 2011, the Company declared an interim dividend for the year ending 31 December 2011, at HK$0.02 per share, amounting to a total sum of approximately HK$15,966,000 (approximately equivalent to RMB13,278,000).

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2011 is based on the profit for the period attributable to ordinary equity holders of the parent of RMB90,056,000 (2010: RMB87,500,000) and the weighted average number of 797,516,376 ordinary shares (2010: 790,896,243 ordinary 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 RMB90,056,000 (2010: RMB87,500,000) and the weighted average number of 801,061,605 ordinary shares (2010: 796,676,488 ordinary shares) in issue during the period after adjusting for the effect of dilutive options.

9. INVENTORIES

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) *RMB'000*
Raw materials (at cost)	**72,958**	36,998
Work in progress (at cost or net realisable value)	**70,026**	101,055
Finished goods (at cost or net realisable value)	**97,390**	43,815
	240,374	181,868

10. TRADE AND NOTES RECEIVABLES

An aged analysis of the trade and notes receivables as at 30 June 2011, net of provisions, is as follows:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) *RMB'000*
Trade receivables		
Outstanding balances with ages:		
Within 90 days	**203,609**	220,780
Between 91 and 180 days	**10,099**	11,921
Between 181 and 270 days	**1,261**	23
Between 271 and 360 days	**-**	8
Over one year	**51**	11
	215,020	232,743
Notes receivables		
Outstanding balances with ages:		
Within 90 days	**160,785**	201,730
Between 91 and 180 days	**119,186**	65,022
	279,971	266,752
	494,991	499,495

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.

11. TRADE AND NOTES PAYABLES

An aged analysis of the trade and notes payables as at 30 June 2011 is as follows:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) *RMB'000*
Outstanding balances with ages:		
Within 90 days	**250,485**	263,360
Between 91 and 180 days	**170,938**	159,562
Between 181 and 270 days	**165**	3,056
Between 271 and 360 days	**73**	215
Over one year	**869**	851
	422,530	427,044

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.

12. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with the current period's presentation.

CHAIRMAN'S STATEMENT

RESULTS

The Group recorded revenue of approximately RMB601,572,000 for the six months ended 30 June 2011 (2010: RMB626,357,000), which represents a decrease of 4.0% from the revenue of the corresponding period in 2010. Profit attributable to owners of the parent was approximately RMB90,056,000 (2010: RMB87,500,000), which was an increase of 2.9% from 2010. The increase in profit was mainly attributable to the progress achieved in the strategic development of the system specific medicines by the Group. After years of hard work, system specific medicines for the field of cardiovascular hypertension treatment have hit the market. They took the lead in the market gradually with increasing market shares. In addition to cardiovascular system diseases, we spared no effort in treatments in other fields, and conducted research and development according to the plan of the Group and launched newly developed products into the market. The growing business of system specific medicines not only increases the overall gross profit margin but also optimizes the product portfolio of the Group, strengthening the sustainable development of the Group. For the six months ended 30 June 2011, under the condition of maintaining a stable dividend payout policy, all the development projects have been funded by the Group's own sufficient internal capital resources.

OVERVIEW OF THE FIRST HALF OF 2011

In the first half of 2011, developed countries faced various challenges with uncertain prospect. On the contrary, even though adjustments in policy are required in China to cool down its overheated economy, we believe that China is moving in the right direction that is beneficial to the business development of various enterprises.

The year of 2011 is an important year for the healthcare reform in China. Since implementing the healthcare reform, the central and local governments have been establishing universal healthcare system and implementing related policies and measures, of which the policies and measures of the government in the first half of 2011 causing market turbulence exerted pressure on pharmaceutical firms in China. The Group adhered to its conservative operational strategies so that we can flexibly adapt to market changes, make adjustment on our strategies and maintain the overall profit growth of the Group. We expect that subsequent to the turbulence caused by policies and measures of the government, the market will resume normal state. Afterwards, the operational environment of the industry will become relatively stable.

The year of 2011 marks the commencement of the "12th five-year" plan. The pharmaceutical market in China will turn into the hub for medicine consumption, production, clinical research and innovation. The level and quality of medicine production in China will keep raising. The importance of China in the world pharmaceutical industry will be paid more and more attention. Thanks to our insight into the development direction of pharmaceutical market in China and identification capabilities for types of medicine in demand, the Group made several investments in the past few years, which guarantees the ability of the Group to develop in the new market environment in the future.

PROSPECTS

It is common knowledge now that the pharmaceutical industry in China is supported by the national "12th five-year" plan. After the announcement of the"12th five-year" plan, the government has issued a number of documents about the direction of operation, reform and consolidation for the pharmaceutical industry in China. The highlight of the plan is to promote development of and upgrade the pharmaceutical industry in China so that the industry not only provides better services for the citizens, but is also able to compete in international market. Hence, under the aforesaid circumstances, the Group has to adhere to three important points that we had raised before: 1) continuously improving innovation capability, conducting scientific research projects up to the cutting edge international standard and establishing a quality assurance system in line with the international GMP standard; 2)strengthening co-operation with overseas well-established pharmaceutical firms in various aspects; improving communication between local and overseas pharmaceutical professional associations and expanding the product and market knowledge platform; 3)making innovation in the country to optimize the sales structure and strategy of the major products.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

On 9 October 2010, the Ministry of Industry and Information Technology of the People's Republic of China（中華人民共和國工業和信息化部）, the Ministry of Health（衛生部）and the State Food and Drug Administration（國家食品藥品監督管理局)jointly issued the "Guiding Opinions on Accelerating the Structural Adjustment in the Pharmaceutical Industry（《關於加快醫藥行業結構調整的指導意見》）". Under the general principle of deepening the reform of the medical and health system, self-innovation is to be strengthened, R&D of new products and new technology promoted, amalgamation and reorganization encouraged, larger enterprises nurtured, technological upgrading accelerated, as well as corporate quality and international competitiveness enhanced, by way of structural adjustment. Besides, the state has recently promulgated the "12th Five-Year Development Plan of the Pharmaceutical Industry （醫藥工業"十二五" 發展規劃）", which further establishes the guiding thoughts, basic principles and development targets for the pharmaceutical industry in the next five years.

In line with the requirements of the above policies, the Group has been restructuring its product mix since 2004. After years of dedication, its "An" series, a product line for treating cardiovascular hypertension diseases, has established brand recognition and won loyalty from customers. Sales of medicine for treating hepatitis B and anti-allergy products also showed year-on-year growth. Currently, the specific medicine products continue to maintain its strong sales momentum.

However, for the Chinese pharmaceutical market in the first half of 2011, the tendering practice in Anhui being implemented in different regions across the country as well as the introduction of "2011 rectification program for national clinical application of antibacterial medicine（《2011年全國抗菌藥物臨床應用專項整治活動方案》）" by the Ministry of Health has posed certain impact on the sales of the Group's cephalosporin powder for injection. Moreover, arbitrary investments and massive production had resulted in an oversupply of the upstream raw material "7-ACA" in the market and substantial reduction in its price during the first half of the year, and the consequential fall in the selling price of the Group's cephalosporin bulk medicine. Therefore, sales of intermediates and bulk medicine decreased by approximately 14.6% compared to the same period last year.

The new Good Manufacturing Practice（GMP）for pharmaceutical production in China（中國新版藥品生產質量管理規範）was effective on 1 March this year. Currently, SFDA is still in the process of training inspectors and preparing implementation. Hence, the new bulk medicine workshop completed in January this year is yet to commence production in the absence of GMP-compliant final acceptance, while depreciation costs have been recognized for the first half of the year.

Under the unexpectedly severe market conditions for cephalosporin antibiotics, coupled with other adverse external factors, the Group focused on increasing the production and sales of specific medicine. "Anneizhen"(安內真) has won the bid for launch to several provinces as a provincial additional basic medicine, maintaining a growth rate of over 40%. "Leiyide" (雷易得(Entecavir Dispersible Tablets)) has also won the bid for launch to some provinces and regions and recorded sales of more than RMB20 million in the first half of the year, meeting its sales target for this stage. In line with development of the state's pharmaceutical reforms, the Group has been accelerating its R&D in the area of specific medicine and managed to achieve a breakthrough in that field.

PRODUCTION & SALES OPERATION

For the six months ended 30 June 2011 as compared to the corresponding period last year, production and sales volume of intermediates and bulk medicines decreased by 11.4% and 19.6% respectively; production and sales volume of powder for injection decreased by 3.6% and 17.3% respectively; production and sales volume of solid-dosage-forms increased by 41.0% and 23.4% respectively. The Company continues to put emphasis on the expansion to overseas markets. Export sales amounted to RMB128,052,000, accounted for approximately 21.3% of the total turnover, an increase of 34.0% as compared to the same period last year.

DEVELOPMENT OF NEW PRODUCTS

During the first half of 2011, two products were approved for launch, namely Cefprozil Tablets and Levamlodipine Besylate Tablets. Currently we have a total of 14 new products being applied for research and development, of which 11 pending approval for production and the remaining 3 under clinical trials. Besides, pre-clinical studies are being conducted for 4 other products.

HONOURABLE RECOGNITION DURING FIRST HALF OF 2011

- The ergot-type drugs for treating cardio-cerebrovascular diseases being developed by Suzhou Dawnrays Pharmaceutical Co., Ltd. have been granted patents by the State Intellectual Property Office of the PRC.
- Suzhou Dawnrays Pharmaceutical Co., Ltd. was recognized "Innovative Enterprise of Jiangsu Province" jointly by Jiangsu Science and Technology Department, State-owned Assets Supervision and Administration Commission of Jiangsu Provincial Government, Jiangsu Federation of Trade Unions and Jiangsu Federation of Industry and Commerce.
- "Suzhou Dawnrays Pharmaceutical Engineering Research Centre for Cephalosporin Antibiotics and Cardiovascular Drugs" set up by Suzhou Dawnrays Pharmaceutical Co., Ltd. was certified by the Science and Technology Department of Suzhou.
- "Nantong Research Centre for Engineering and Technology" of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. obtained certification from the Science and Technology Department of Nantong.

CONSTRUCTION PROJECT OF ADDITIONAL PRODUCTION FACILITIES

Trial production has commenced at the bulk medicines workshop and ancillary facilities of Suzhou Dawnrays Pharmaceutical Co., Ltd. at Phase I of Hedong Industrial Park. Construction of the workshop with a production capacity up to 2 billion capsules/tablets of specific medicines has largely been completed and installation of equipment is under way.

Phase II of the construction project of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. has been progressing as planned and government approval has been obtained in respect of the feasibility studies for Phase III. Relevant formalities such as environment assessment are expected to follow.

OUTLOOK

It is expected that the pharmaceutical industry in China is entering into a new era featuring high quality and high standard driven by innovation. Notwithstanding the circumstance of production costs under the pressure of the ever-rising cost of materials, operating costs under the pressure of stricter environment regulations, financial costs under the pressure of tightened monetary policies and management costs under the pressure of growing labour costs, Dawnrays has enough confidence and ability to take on the new challenges arising in the market. For the latter half of the year, we will step up our efforts in the production and sales of Cephalosporin products in oral form. As regards specific medicines, we will strive to capture a larger market share for our "An" series products. Eyeing the overseas markets, global distribution of "Leiyide" (雷易得(Entecavir Dispersible Tablets)), a specific medicines for treating hepatitis, is being planned in an orderly fashion. We will also speed up the construction process of our production facilities for specific medicines so as to relieve the overload on our production as early as possible.

FINANCIAL REVIEW

SALES AND GROSS PROFIT

For the six months ended 30 June 2011, the Group has achieved the revenue of approximately RMB601,572,000, a decrease of RMB24,785,000 and equivalent to a reduction of 4% compared with the corresponding period of last year. The reasons for the decrease in turnover were mainly due to the decrease in the sales volume of intermediates and bulk medicines by 19.6% and the powder for injections under finished drugs by 17.3% respectively while the sales volume of solid-dosage-forms was increased by 23.4% compared with the corresponding period of last year.

Gross profit was approximately RMB199,458,000, approximately equivalent to the gross profit as in the corresponding period of last year. Gross profit margin was continually increased by 1.3% to 33.2% from 31.9% 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 62.8% to 55.9% while the sales of finished drugs accounted for the total turnover increased substantially to 44.1% compared with the corresponding period of last year. Among them, the sales of solid-dosage-forms increased by RMB51,429,000 compared with the corresponding period of last year which further optimized the product portfolio.

TABLE OF TURNOVER ANALYSIS

PRODUCT	**TURNOVER (RMB'000)**			**SALES BREAKDOWN (%)**		
	2011	2010	Changes	**2011**	2010	Changes
Intermediates and Bulk Medicines	**335,980**	393,399	-57,419	**55.9**	62.8	-6.9
Finished Drugs	**265,592**	232,958	32,634	**44.1**	37.2	6.9
Overall	**601,572**	626,357	-24,785	**100.0**	100.0	0.0

EXPENSES

During the period, the total expenses incurred were approximately RMB96,179,000, basically similar to the amount as in the corresponding period of last year, equivalent to 16.0% of turnover (2010: 15.6%).

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

For the six months ended 30 June 2011, profit attributable to owners of the parent amounted to approximately RMB90,056,000, equivalent to an increase of 2.9% compared with the corresponding period of last year. The growth of overall profit maintained under the severe external situation in the first half of 2011 mainly benefitted from the substantial increase in the sales volume and amount of system specific medicines business.

ANALYSIS ON THE RETURN ON ASSETS

As at 30 June 2011, net assets attributable to owners of the parent were approximately RMB874,290,000. Net return on net assets, which is defined as the profit attributable to owners of the parent for the year divided by net assets attributable to owners of the parent, was 10.3% (2010: 11.4%). The current ratio and quick ratio was 1.62 and 1.24 respectively. Turnover days for trade and notes receivables were approximately 149 days. The turnover days for inventory were approximately 95 days.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group held cash and cash equivalents of approximately RMB112,316,000(as at 31 December 2010: RMB210,975,000). During the period, the net cash flows from operating activities was approximately RMB17,420,000(2010: RMB132,169,000). Net cash flows used in investing activities was approximately RMB61,625,000 (2010: RMB63,354,000). Net cash flows used in financing activities was approximately RMB53,115,000 (2010: -RMB2,749,000).

As at 30 June 2011, the debt ratio (defined as sum of bank advances for discounted bills plus interest-bearing bank loans over total assets) of the Group was 9.3% (as at 31 December 2010: 3.6%). As at 30 June 2011, the Group has amounting to HK$170,550,000 short term bank loans which are interest-bearing. The time deposits of approximately RMB87,857,000 were pledged to a bank to secure HK$105,000,000 bank loans. The Group's remaining bank loans are guaranteed by corporate guarantee of the Company and some of its subsidiaries. On top of the corporate guarantee, a subsidiary of the Group undertook to maintain fixed deposits of not less than RMB54,500,000 with the lending banks' associates in the Mainland China throughout the loan period of HK$62,550,000 bank loans. The fixed bank deposits carry interest at market rate. In order to convert the floating rate bank loans to a fixed annual interest rate, the Group entered into an interest rate swap contracts with a notional amount of HK$105,000,000 with a bank. The purpose is to execute the Group's financial management requirement to exclude any risk of interest rate fluctuations of floating interest rate loans for achieving the planned financial results.

As at 30 June 2011, the Group had aggregate bank facilities of approximately RMB876,823,000 (as at 31 December 2010: RMB827,012,000).

As at 30 June 2011, the Group's capital commitments amounted to approximately RMB230,702,000 (as at 31 December 2010: RMB273,680,000), which mainly derived from the construction of new 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.

Save as aforesaid disclosure, 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 2011, the Group employed approximately 1,565 employees and the total remuneration was approximately RMB47,905,000 (2010: RMB43,311,000). 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.

CHARGE ON ASSETS

Save for the bank deposits of approximately RMB87,857,000 which were pledged to a bank to secure bank loans of HK$105,000,000, as at 30 June 2011, the Group had no charges on its assets (as at 31 December 2010: Nil).

CONTINGENT LIABILITIES

As at 30 June 2011, the Group had no material contingent liabilities (as at 31 December 2010: 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 2011, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

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 (the "Code") 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 2011.

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 2011.

AUDIT COMMITTEE

For the six months ended 30 June 2011, 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.

The unaudited interim condensed consolidated financial statements of the Company for the six months ended 30 June 2011 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 Thursday, 8 September 2011 to Friday, 9 September 2011 (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 Wednesday, 21 September 2011. 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 4:00 p.m. on Wednesday, 7 September 2011.

The Board would like to take this opportunity to express appreciation and gratitude to its shareholders for their support and to our dedicated colleagues for their contributions and outstanding service.

By Order of the Board
Li Kei Ling
Chairman

Hong Kong, 22 August 2011

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.