

# Chairman's Statement

## DEAR SHAREHOLDERS,

On behalf of the Board of directors of Dawnrays Pharmaceutical (Holdings) Limited (the "Company") and its subsidiaries (together referred to as the "Group"), I would like to present herewith the first Annual Report of the Group since its listing on the Main Board of The Stock Exchange of Hong Kong Limited on 11 July 2003.

## RESULTS

The Group recorded a turnover of approximately RMB491,388,000 and profits attributable to shareholders of approximately RMB108,022,000 for the year ended 31 December 2003, representing an increase of approximately 50% and approximately 8% over 2002 respectively. Growth in turnover and profits were mainly attributable to the significant increase in the production and sales volume of cephalosporin antibiotics series in powder for injection form and bulk medicine, the rapid penetration in the market of the new products of system specific medicines (with average gross profit of approximately 78%) as planned, as well as the effective control on manufacturing costs.

## FINAL DIVIDEND

The Board of directors has declared a final dividend of HK\$0.035 per share for the year ended 31 December 2003, amounting to a total sum of HK\$28,000,000 (equivalent to approximately RMB29,839,600).

Together with the interim dividend of HK\$0.015 per share, this will bring the total dividend distribution for the year to HK\$0.05 per share.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 26 April 2004 to Thursday, 29 April 2004 (both days inclusive), during which period no transfer of shares in the Company will be registered.

Dividend cheques will be despatched to shareholders on or about 14 May 2004. In order to qualify for the final 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, 23 April 2004.

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## BUSINESS OUTLOOK

### I. An analysis on market positioning

According to the “China Medical Statistical Year Book 2002” (2002 年中國醫藥統計年報), the scale of cephalosporins market in the PRC as a whole exceeded RMB11.9 billion in 2002. As indicated by such analysis, growth in the consumption of cephalosporins per annum was greater than 20% in the recent five years. At the same time, China adopted the tendering mechanism for medicines dedicated to be used in hospitals and the centralised social medical insurance mechanism. Moreover, pursuant to the “Notice on the Acceleration of the Supervision and Implementation of GMP” (關於全面加快監督實施藥品 GMP 工作進度的通知) issued by the then State Drug Administration of the PRC, all pharmaceutical manufacturing enterprises in the PRC are required to obtain Good Manufacturing Practice (“GMP”) certification by 30 June 2004. Pharmaceutical manufacturing enterprises which fail to obtain GMP certification shall cease production, and thus may not continue their operation of pharmaceutical manufacturing business in the PRC.

### II. Vertical integration of the enterprise

The Group is principally engaged in the PRC in the development, manufacture and sale of non-patented chemical medicines, including cephalosporins in sterile bulk medicines and powder for injection forms and their intermediate pharmaceuticals and system specific medicines. It is one of the few cephalosporins manufacturers in the PRC which has realised a comprehensive vertically integrated production. Currently, the Group's solvent crystallisation techniques for production of sterile bulk medicine is a leading technology employed in the PRC. The Group's cefoperazone sodium bulk medicine produced from this technique has commanded a market share of nearly 70% in the PRC.

As the market of cephalosporins is highly attractive, the Directors of the Group are fully aware that large pharmaceutical enterprises in the PRC, including State-owned enterprises and foreign invested enterprises, are starting to gradually increasing their investments in this industry. In addition to the policy impact on GMP production requirement, the Directors consider that in the coming three to five years, the production process in the nation will become standardised and the number of pharmaceutical manufacturers in the PRC will drop, whilst large pharmaceutical manufacturers will capitalise on the competitive edges on resources and operating efficiency arising from an integrated industrial chain to compete for market share. Effective allocation of resources within the pharmaceutical industry will focus on enterprises with adequate capital, technical process advantages and strong sales capabilities. Competition among such enterprises will also increase.

### III. Our strategies

Under such circumstances, the Group has formulated and implemented the following strategies:

#### 1. *To develop economies of scale*

Following the completion of the new bulk medicine workshop which commenced production in early 2003, the Group has a production capacity of third generation cephalosporins bulk medicine at 300 tonnes per annum. On this basis, in the second half of 2003, the Board decided to construct an additional 300 tonnes bulk medicine workshop, thereby making the third generation cephalosporins bulk medicine production capacity of Dawnrays Pharmaceutical to attain a high capacity by world standard as well as being a top-grade product in the PRC.

2. To focus on the development of medicines with huge market and commercial values

Currently, most pharmaceutical manufacturing enterprises in the PRC are regional in nature. These enterprises do not possess the resources and capacity of being an international large pharmaceutical manufacturer. Since the establishment of Dawnrays, the Group has been developing medicines based on patents near expiry but with huge market and commercial values in the PRC. The focus of the R&D lies on the production techniques and quality assurance. As the population in the PRC is huge, such model of R&D requires relatively smaller investments, but delivers reasonable return within a short lag time, and is suitable to the situation of the PRC as a whole.

3. Business models characterized by market segmentation and vertical integration

The Group has taken a balanced approach to the product mix of the development of cephalosporins and system specific medicines. The workshop for the production of cephalosporins powder for injection form will gradually increase production from 45 million vials per annum to 280 million vials per annum. As the average gross profit of cephalosporin is declining, the Group will significantly increase production volume, expand market share and incubate brand-name in respect of cephalosporins. It is believed that the price reduction of cephalosporins in the PRC will bring about significant increase in the market share of cephalosporins in the market of antibiotics in the PRC.

At the same time, by leveraging on the solid foundation in the market, as represented by a huge market share and high brand awareness created by our cephalosporins, the Group's system specific medicines, such as amlodipine besylate tablets, rapidly penetrated the end-user markets with remarkable sales growth, and contributed approximately 18% to the gross profit of the Group in Year 2003 (2002: contributed 9% to the Group's gross profit).

4. Establishing a 3-dimensional marketing model

After the Group was listed in July 2003, the Group has increased the market penetration of its product and has expanded its marketing network from metropolitan cities throughout the nation to the market, sales, and academic promotion network of regional township throughout the nation. At the same time, division of labour is witnessed in the marketing and sales system, so as to actively cope with different market segments. By incubating sources of end-users in hospital, and establishing intensive distribution channels, the penetration of cephalosporins extended from the existing prosperous cities to the huge inland markets. In respect of bulk medicines, local sales sources in the various provinces and cities established broad and mutually benefiting collaboration relationships among each other.

In respect of system specific medicines, more efforts were devoted promotions in the academic field, with a view to attract commentaries made by western medicine authorities in the PRC on the Group's products, and to develop products most needed by the market. A sound nationwide information feed-back mechanism covering users in the hospital was established.

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### 5. *Upward integration, international collaboration, and formation of alliances with strategic partners*

As at to date, the Group has been actively seeking for opportunities of upward integration of the industrial chain subject to globalisation and accession of the PRC into the WTO. At the same time, the Group is still interested to diversify into the operation of traditional Chinese medicines and healthcare nutritions products in a state-of-the-art form. Currently, products of Dawnrays Pharmaceutical were exported to foreign countries, including Thailand and Pakistan. The Group has been active in seeking strategic collaboration partners with respect to capital structure and business developments.

### IV. Corporate governance

After its listing, the Board established Investment Development Committee and Human Resources Strategic Committee, which made the development of the Group more standardized and transparent, with respect to investment direction, creation of new products, appointment and removal of officers and structure of remuneration. The Board will improve the capabilities of the Group in corporate governance, so as to enhance the flexibility and sciences of the operation platform. An effective and transparent internal control mechanisms was thus established, so as to maintain sustainable and healthy development of the enterprise. It will further lay the foundation for the Group's acquisition in the market.

### V. The creation of future jointly by the enterprise and its staff

After the Group was listed, the Board increased its pace in the training of expertise with international perspectives and good knowledge of the national situation of the PRC, so as to meet with the needs for the rapid development in the enterprise internationalisation and professionalisation. Shares will be transferred and share options will be granted to the brilliant senior management at fair prices. The Group has always treated in outperforming management team as well as the staff of Dawnrays Pharmaceutical countrywide as the most valuable intangible assets of the Group, which have been the greatest driving force to the further development of the Group. I would like to take this opportunity to express my deepest gratitude to the members of the Board, and to the staff of the Group's various companies and various departments who have used their best endeavours at work and dedicatedly served the Group in the past year.

**Li Kei Ling**  
*Chairman*

16 March 2004