Notes to Financial Statements

31 December 2003

1. CORPORATE INFORMATION

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 reorganization 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 Reorganization").

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"). Fortune United Group Limited, a company incorporated in the British Virgin Islands, is the holding company of the Company.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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 for the two years ended 31 December 2003 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 two years, 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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Subsidiaries

A subsidiary is a company over which the Company has the power to govern its financial and operating policies so as to obtain benefits from its activities. A subsidiary is excluded from consolidation if it operates under severe long term restrictions which may impair its ability to transfer funds to the Company.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalized as an additional cost of the property, plant and equipment.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 years
Machinery and other equipment	5-10 years
Office equipment	5 years
Motor vehicles	5 years

The carrying values of property, plant and equipment are reviewed periodically in order to assess whether they are recorded in excess of their recoverable values, and where carrying values exceed these recoverable amount, assets are written down to their recoverable amount.

The gain or loss on disposal or retirement of property, plant and equipment recognized in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset at the time of disposal.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Land-use-rights

Land-use-rights are stated at cost less accumulated amortization. Land-use-rights are amortized on the straight-line basis over a period of 50 years.

Construction in progress

Construction in progress represents property, plant and equipment under construction and is stated at cost. The acquisition period of an asset includes the period when the asset is under construction, installation and testing. Cost comprises direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of the construction. Construction in progress is transferred to the appropriate category of plant and equipment when it is completed and ready for its intended use. No depreciation is provided on construction in progress until the asset is completed and is ready for its intended use.

Research and development costs

All research costs are charged to the income statement incurred.

Development costs incurred on projects to develop new products are capitalized and deferred only when the projects are clearly defined, the costs are separately identifiable and can be measured reliably, there is reasonable certainty that the projects are technically feasible and the products have commercial value. Development expenditures which do not meet these criteria are expensed when incurred.

Deferred development costs are stated at cost less accumulated amortization and any impairment losses. Amortization is calculated on the straight-line basis to write off the deferred development costs over the estimated commercial lives of the underlying products, subject to a maximum of 10 years, commencing from the date when the products are put into commercial production.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If any such indication exists, the recoverable amount will be estimated.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the income statement on the straight-line basis over the lease terms.

Trade and other receivables

Trade receivables, which generally have terms of about 60 days, are recognized and carried at original invoice amounts less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Prepayments, deposits and other receivables are recognized and carried at cost less allowance for any uncollectible amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Trade and other payables

Liabilities for trade and other payables which are normally settled on terms of about 90 days are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Loans and borrowings

All loans and borrowings, which are interest-bearing and held to maturity, are initially recognized at cost, being the fair value of the consideration received, and subsequently measured at amortized cost.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, cost comprises direct materials, direct labour, subcontracting fees and an appropriate proportion of overheads.

Net realizable value is based on estimated selling price less all further costs expected to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Income taxes

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Income taxes *(Cont'd)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable (greater than 50%) that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant is related to an expense item, it is recognized as income over the periods necessary to match them on a systematic basis to the costs which it is intended to compensate. Where the grant is related to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) revenue from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and

(c) dividends, when the shareholders' right to receive payment is established.

Retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Accommodation benefits

Contributions to an accommodation fund administered by the Public Accumulation Funds Administration Centre are charged to the income statement as incurred.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

Foreign currencies

The books and records of the Company and Dawnrays International Company Limited ("Dawnrays International"), the immediate holding company of the other subsidiaries comprising the Group, are denominated in Hong Kong dollars. The books and records of the Company's subsidiaries located and operated in the PRC (the "PRC Subsidiaries") are maintained in Renminbi ("RMB"). The principal activities of the Group are transacted in RMB. Accordingly, the Group's functional and reporting currency is RMB.

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the appropriate rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of the Company and Dawnrays International denominated in foreign currencies are translated into RMB at the applicable rates of exchange ruling at the balance sheet date. The resulting differences are included in the exchange fluctuation reserve.

3. SEGMENT INFORMATION

The Group's turnover and profit for the two years ended 31 December 2003 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.

4. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, net of value-added tax, after allowances for returns, trade discounts and various types of business tax and government surcharges where applicable. All significant intra-Group transactions are eliminated on consolidation.

	Group	
	2003	2002
	RMB'000	*RMB'000*
Turnover		
Sale of goods	**491,881**	328,263
Less: Sales tax and government surcharges	**(493)**	(339)
Turnover	**491,388**	327,924
Other revenue		
Interest income from bank balances	**770**	140
Government grants	**67**	100
Others	**30**	287
Other revenue	**867**	527
Total revenue	**492,255**	328,451

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

		Group	
	Notes	**2003**	2002
		RMB'000	*RMB'000*
Auditors' remuneration		**893**	40
Cost of goods sold		**285,485**	155,617
Amortization of deferred development costs	16	**566**	258
Amortization of land-use-rights	14	**212**	103
Depreciation	13	**6,097**	5,186
Loss on disposal of property, plant and equipment		**128**	177
Operating lease rentals in respect of buildings		**631**	390
Staff costs (including directors' remuneration):			
Retirement costs	9	**2,715**	1,590
Accommodation benefits		**1,348**	551
Salaries and other staff costs		**23,474**	13,837
Total staff costs		**27,537**	15,978
Research and development costs		**10,305**	8,425

6. FINANCE COSTS

	Group	
	2003	2002
	RMB'000	*RMB'000*
Interest on bank loans	**897**	477
Less: Interest capitalized	**88**	—
	809	477
Bank charges	**136**	44
	945	521

7. DIRECTORS' REMUNERATION

Details of directors' emoluments are as follows:

	Group	
	2003	2002
	RMB'000	*RMB'000*
Fees	**115**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**1,707**	148
Pension scheme contributions	**28**	8
	1,735	156
	1,850	156

Fees include RMB115,000 (2002: Nil) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil to HK$1,000,000	**8**	2

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, share options were granted to the directors for the subscription of 3,748,000 shares of the Company in respect of their services to the Group, further details of which are set out in note 25 to the financial statements. No value in respect of the share options granted during the year has been charged to the income statement, or is otherwise included in the above directors' remuneration disclosures.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2002: one) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the two (2002: four) non-director, highest paid employees for the year are as follows:

	Group	
	2003	2002
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**567**	371
Performance related bonuses	**—**	—
Pension scheme contributions	**18**	31
	585	402

The remuneration of the highest paid, non-director employees fell within the nil to HK$1,000,000 band for the two years ended 31 December 2003.

During the year, share options were granted to the two non-director, highest paid employees for the subscription of 1,696,000 shares of the Company in respect of their services to the Group, further details of which are included in the disclosures in note 25 to the financial statements. No value in respect of the share options granted during the year has been charged to the income statement, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

9. RETIREMENT BENEFITS AND ACCOMMODATION BENEFITS

In compliance with the Mandatory Provident Fund Ordinance ("MPF Ordinance"), the Company has participated in the MPF scheme, a defined contribution scheme managed by an independent trustee, to provide retirement benefits to its Hong Kong employees. Contributions to the MPF scheme are in accordance with the statutory limits prescribed by the MPF Ordinance.

As stipulated by the PRC state regulations, the PRC Subsidiaries participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retired date. The PRC Subsidiaries are required to make contributions to the local social security bureau at 20-22.5% of the previous year's average basic salaries within the geographical area where the employees are under employment with the PRC Subsidiaries. The Group has no obligation for the payment of pension benefits beyond the annual contribution as set out above.

According to relevant rules and regulations of the PRC, the PRC Subsidiaries and their employees are each required to make contributions to an accommodation fund at 7%-10% of the salaries and wages of the employees which is administered by Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for such contribution to the accommodation fund.

As at 31 December 2003, the Group had no significant obligation apart from the contributions as stated above.

10. TAX

(a) Income tax expense

The income tax expense, all current, charged to the consolidated income statement for the year ended 31 December 2003 was as follows:

	Group	
	2003	2002
	RMB'000	*RMB'000*
Income tax expense	**13,704**	—
Tax refund	**(9,708)**	—
	3,996	—

No provision for Hong Kong profits tax has been made as the Group had no profits arising in Hong Kong during the year.

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 third profitable year in 2003 and therefore the applicable income tax rate is 12%. Shanghai Dawnrays Chemical is in its second profitable year based on the income for statutory financial reporting purposes and, accordingly, no provision for income tax has been made in 2003. Suzhou Dawnrays Chemical and Suzhou Dawnrays Technology had no assessable profits and therefore, no provision for income tax has been made during the year.

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

10. TAX *(Cont'd)*

(a) Income tax expense *(Cont'd)*

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:

	Group	
	2003	2002
	RMB'000	*RMB'000*
Accounting profit in the accompanying consolidated income statement	**112,424**	100,598
Applicable income tax rate	**12%**	—
Tax at effective rate	**13,491**	—
Tax effect of income and expense items which are not assessable or deductible for income tax purpose	**213**	—
Current tax expenses	**13,704**	—

(b) Tax refund

Pursuant to a board resolution of Suzhou Dawnrays Pharmaceuticals dated 15 December 2003, Suzhou Dawnrays Pharmaceuticals declared an interim dividend of RMB71,190,000 to Dawnrays International pertaining to the period of 11 months ended 30 November 2003. Pursuant to a board resolution of Dawnrays International dated 18 December 2003, Dawnrays International would make an application to the relevant government authorities for approval to re-invest the aforesaid dividend of RMB71,190,000 into Suzhou Dawnrays Pharmaceuticals. Such application was submitted on 8 March 2004. According to the relevant PRC tax law, tax refund in relation to the aforesaid re-investment amounted to RMB9,708,000.

11. DIVIDENDS

	Company	
	2003	2002
	RMB'000	*RMB'000*
Dividend pertaining to the prior year declared in the year	**69,245**	26,207
Interim — HK$0.015 (2002: N/A) per ordinary share	**12,760**	—
	82,005	26,207
Proposed final — HK$0.035 (2002: N/A) per ordinary share	**29,840**	69,245

On 16 March 2004, the Company declared a final dividend for the year ended 31 December 2003, at HK$0.035 per share, amounting to a total sum of HK$28,000,000 (equivalent to approximately RMB29,839,600).

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for current year of RMB108,022,000 (2002: RMB100,119,000), and the weighted average 696,438,356 ordinary shares in issue during the year (2002: 600,000,000 ordinary shares on the assumption that the Group Reorganization was completed on 1 January 2002).

As the exercise price of outstanding share options is higher than the average fair value of the ordinary share during the year, the conversion to ordinary shares would increase earnings per share. The diluted earnings per share amount for the year ended 31 December 2003 has not been presented, as the share options outstanding during the year had an anti-dilutive effect on the basic earnings per share.

13. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Buildings	**Machinery and other equipment**	**Office equipment**	**Motor vehicles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:					
As at 1 January 2003	21,449	39,283	3,818	6,064	70,614
Additions	—	—	1,790	1,792	3,582
Transferred from construction in progress	20,453	47,572	544	148	68,717
Disposals	—	(171)	(57)	(1,052)	(1,280)
As at 31 December 2003	**41,902**	**86,684**	**6,095**	**6,952**	**141,633**
Accumulated depreciation:					
As at 1 January 2003	4,299	13,134	1,927	1,276	20,636
Provided for the year	998	3,796	603	700	6,097
Disposals	—	(69)	(42)	(903)	(1,014)
As at 31 December 2003	**5,297**	**16,861**	**2,488**	**1,073**	**25,719**
Net book value:					
As at 31 December 2003	**36,605**	**69,823**	**3,607**	**5,879**	**115,914**
As at 1 January 2003	17,150	26,149	1,891	4,788	49,978

Buildings with net book values of RMB3,500,000 as at 31 December 2003 were pledged to banks to obtain credit lines from banks, such credit lines had not been utilized as at 31 December 2003. The pledge was subsequently released by banks in January 2004.

13. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

	Company
	Office equipment
	RMB'000
Cost:	
As at 1 January 2003	—
Additions during the year and as at 31 December 2003	**652**
Accumulated depreciation:	
As at 1 January 2003 and 31 December 2003	**—**
Net book value:	
As at 31 December 2003	**652**
As at 1 January 2003	—

14. LAND-USE-RIGHTS

	Group	
	2003	2002
	RMB'000	*RMB'000*
Cost:		
At beginning of year	**9,726**	4,127
Additions	**5,200**	5,599
At end of year	**14,926**	9,726
Accumulated amortization:		
At beginning of year	**591**	488
Provided for the year	**212**	103
At end of year	**803**	591
Net book value:		
At beginning of year	**9,135**	3,639
At end of year	**14,123**	9,135

15. CONSTRUCTION IN PROGRESS

	Group	
	2003	2002
	RMB'000	*RMB'000*
At beginning of year	**34,842**	2,771
Additions	**91,404**	38,686
Transferred to property, plant and equipment	**(68,717)**	(6,615)
At end of year	**57,529**	34,842

16. DEFERRED DEVELOPMENT COSTS

	Group	
	2003	2002
	RMB'000	*RMB'000*
Cost:		
At beginning of year	**6,976**	2,634
Additions	**4,671**	4,342
At end of year	**11,647**	6,976
Accumulated amortization:		
At beginning of year	**294**	36
Provided for the year	**566**	258
At end of year	**860**	294
Net book value:		
At beginning of year	**6,682**	2,598
At end of year	**10,787**	6,682

17. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	RMB'000	*RMB'000*
Unlisted shares, at cost	**100,175**	—
Amounts due from subsidiaries – *note 20*	**147,976**	—
	248,151	—

Amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

Name	**Place of incorporation/ registration and operations**	**Nominal value of issued shares/ paid up capital**	**Percentage of equity attributable to the Group**	**Principal activities**
Directly held				
Dawnrays International Company Limited	British Virgin Islands	US$100	100	Investment holding
Indirectly held				
Suzhou Dawnrays Pharmaceuticals Co., Ltd	People's Republic of China	US$15,147,821	100	Manufacture and sale of pharmaceutical products
Shanghai Dawnrays Chemical Co., Ltd	People's Republic of China	US$680,000	92	Manufacture and sale of intermediate pharmaceutical products
Suzhou Dawnrays Pharmaceutical Technology Co., Ltd	People's Republic of China	US$480,413	100	Research and development of pharmaceutical products
Suzhou Dawnrays Chemical Co., Ltd	People's Republic of China	US$3,667,452	100	Manufacture and sale of intermediate pharmaceutical products

18. INVENTORIES

	Group	
	2003	2002
	RMB'000	*RMB'000*
Raw materials	**13,862**	19,602
Work in progress	**20,489**	25,870
Finished goods	**19,991**	9,120
	54,342	54,592

19. TRADE AND NOTES RECEIVABLES

An aged analysis of the trade and notes receivables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
	RMB'000	*RMB'000*
Trade receivables		
Outstanding balances with ages:		
Within 90 days	**101,461**	54,629
Between 91 to 180 days	**3,937**	5,666
Between 181 to 270 days	**1,654**	568
Between 271 to 360 days	**566**	238
Over one year	**683**	262
	108,301	61,363
Notes receivable		
Outstanding balances with ages:		
Within 90 days	**34,247**	7,568
Between 91 to 180 days	**11,759**	—
	46,006	7,568
	154,307	68,931
Less: Provision for bad and doubtful debts	**510**	510
	153,797	68,421

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Tax refund	**9,708**	—	**—**	—
Prepayments	**5,476**	4,797	**—**	—
Deposits and other debtors	**2,297**	1,087	**365**	—
Amounts due from subsidiaries	**—**	—	**147,976**	—
	17,481	5,884	**148,341**	—

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**61,706**	41,475	**6,401**	—
Time deposits	**72,815**	—	**67,814**	—
Cash and cash equivalents	**134,521**	41,475	**74,215**	—

22. TRADE AND NOTES PAYABLES

An aged analysis of the trade and notes payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
	RMB'000	*RMB'000*
Outstanding balances with ages:		
Within 90 days	**104,598**	39,557
Between 91 to 180 days	**30,867**	14,767
Between 181 to 270 days	**6,045**	707
Between 271 to 360 days	**283**	1,794
Over one year	**439**	919
	142,232	57,744

23. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other payables	**34,678**	19,865	**—**	—
Accruals	**1,757**	689	**1,115**	43
	36,435	20,554	**1,115**	43

24. SHARE CAPITAL

	Company	
	2003	2002
	HK$'000	*HK$'000*
Shares		
Authorized:		
10,000,000,000 (2002: 3,900,000) ordinary shares of HK$0.1 each	**1,000,000**	390
Issued and fully paid:		
800,000,000 (2002: 1, nil paid) ordinary shares of HK$0.1 each	**80,000**	—
Equivalent to RMB'000	**84,880**	—

The following movements in the Company's authorized and issued share capital took place during the period from 20 September 2002 (date of incorporation) to 31 December 2003:

(a) As at the date of incorporation of the Company on 20 September 2002, its authorized share capital was HK$390,000 divided into 3,900,000 shares, one of which was allotted and issued, nil paid, to the subscriber to the memorandum and articles of association of the Company and was subsequently transferred to Fortune United Group Limited on 7 October 2002.

(b) By written resolutions of the sole shareholder of the Company passed on 21 June 2003, the authorized share capital of the Company was increased from HK$390,000 to HK$1,000,000,000 by the creation of an additional 9,996,100,000 shares.

24. **SHARE CAPITAL** *(Cont'd)*

(c) As at 31 December 2002, combined shareholders' equity includes interest-free shareholders' loans amounting to RMB100,175,000 of Dawnrays International. On 21 June 2003, Dawnrays International allotted and issued 98 shares of USD1.00 each to its then shareholders and thereby capitalized the shareholders loans of RMB100,175,000 due from Dawnrays International to its shareholders.

Pursuant to the Group Reorganization as set out in note 1 and as consideration for the acquisition by the Company of the entire issued capital of Dawnrays International from Fortune United Group Limited, on 21 June 2003, an aggregate of 999 shares were allotted and issued by the Company, credited as fully paid, to Fortune United Group Limited and the one nil paid share mentioned in (a) above.

(d) On 9 July 2003, 200,000,000 shares were allotted and issued for cash at HK$0.8 each by way of public offer and placing.

(e) On 9 July 2003, 599,999,000 shares were allotted and issued as fully paid to Fortune United Group Limited by way of capitalizing a sum of HK$59,999,900 standing to the credit of the share premium account.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 25 to the financial statements.

25. **SHARE OPTION SCHEME**

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include the Company's directors and other employees of the Group. The Share Option Scheme was adopted on 21 June 2003 and will remain in force for 10 years from that date.

The Company granted options on 11 November 2003 (the "Date of Grant") to 456 employees (including directors) to subscribe for 40,000,000 shares of the Company at exercise price of HK$0.83 per share.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the existing issued share capital of the Company as at the date of this annual report ("Mandate Limit"). Accordingly, the maximum number of shares which may be granted under the Share Option Scheme shall not exceed 80,000,000 shares. The Company may, however, seek approval by its shareholders in general meeting to renew the Mandate Limit in accordance with the Listing Rules.

The maximum number of shares issued and to be issued upon exercise of options granted under the Share Option Scheme and any other share option schemes of the Company to any Eligible Person (including cancelled, exercised and outstanding options), in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue of the Company. Any further grant of options in excess of such limit must be separately approved by shareholders with such Eligible Person and his associates abstaining from voting.

25. SHARE OPTION SCHEME *(Cont'd)*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period commencing on such date on or after the date on which the option is granted as the Board may determine in granting the option and expiring at the close of business on such date as the Board may determine in granting the option but in any event shall not exceed ten years from the date of grant.

A non-refundable remittance of HK$10 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the option.

The subscription price of a share in respect of option granted shall be at least the higher of (a) the closing price of the Company's shares on the Stock Exchange of Hong Kong Limited, as stated in the Stock Exchange's daily quotations sheet on the relevant offer date in respect of such option; (b) the average of the closing prices of the Company's shares on the Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the option; and (c) the nominal value of the ordinary shares of the Company.

The following share options were granted under the Scheme during the year:

	Number of share options granted during the year	Number of share options lapsed during the year	Number of share options exercised during the year	Number of share options as at 31 December 2003	Date of grant	Exercise period	Exercise price
							HK$
Executive Directors:							
Ms. LI Kei Ling	700,000	—	—	700,000	11 November 2003	11 November 2004 to 10 November 2007	0.83
Mr. HUNG Yung Lai	700,000	—	—	700,000	11 November 2003	11 November 2004 to 10 November 2007	0.83
Mr. ZHANG Jing Xing	1,500,000	—	—	1,500,000	11 November 2003	11 November 2004 to 10 November 2007	0.83
Mr. LAM Kam Wah	848,000	—	—	848,000	11 November 2003	11 November 2004 to 10 November 2007	0.83
Other employees:							
In aggregate	36,252,000	(84,000)	—	36,168,000	11 November 2003	11 November 2004 to 10 November 2007	0.83
	40,000,000	(84,000)	—	39,916,000			

At the balance sheet date, the Company had 39,916,000 share options outstanding under the Scheme, which represented approximately 5% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 39,916,000 additional ordinary shares of the Company, additional share capital of HK$3,991,600 and share premium of HK$29,138,680 (before issue expenses).

26. RESERVES

The amounts of the Group's reserves and the movement therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 40 and 41 of the financial statements.

(i) Contribution surplus

The contribution surplus of the Group represents the difference between the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired pursuant to the Group Reorganization as set out in note 1, over the nominal value of the Company's shares issued in exchange therefor. The contribution surplus of the Company represents the excess of the then consolidated net assets of the subsidiaries acquired pursuant to the Group Reorganization, over the nominal value of the Company's shares issued in exchange therefor.

(ii) Statutory surplus reserve ("SSR")

In accordance with the Company Law of the PRC and the articles of association of the PRC Subsidiaries, the PRC Subsidiaries are each required to allocate 10% of its profit after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserve ("SSR") until such reserve reaches 50% of the registered capital of the PRC Subsidiaries. Part of the SSR may be converted to increase paid-up capital, provided that the remaining balance after the capitalization is not less than 25% of the registered capital.

27. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group is exposed to market risk, including primarily changes in interest rates. The Group does not hold or issue derivative financial instruments for trading purposes.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing bank loans and borrowings.

The Group does not hedge interest rate fluctuations.

Exchange rate risk

The Group did not have significant exposure to market risk for changes in foreign currency exchange rates for the year ended 31 December 2003.

Credit risk

Credit risk arising from the inability of a counterpart to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterpart's obligations exceed the obligations of the Group. The Group minimizes its exposure to credit risk by only dealing with counterparts with acceptable credit ratings.

Net fair values

The aggregate net fair values of the financial assets and financial liabilities of the Group are not materially different from their carrying amounts.

Credit risk exposures

The Group's maximum exposure to credit risk (not taking into account the value of any collateral or other securities held) in the event that the counterparts fail to perform their obligations as at 31 December 2003 in relation to each class of recognized financial assets is the carrying amount of those assets as indicated in the balance sheets.

Significant concentrations of credit risk

Concentration of credit risk exists when changes in economic, industrial or geographic factors similarly affect groups of counterparts whose aggregate credit exposure is significant in relation to the Group's total credit exposure. Significant concentration of credit risk arises from exposure to substantial amounts due from hospitals and medical institutions operating in the PRC.

28. COMMITMENTS

(a) Lease commitments

At 31 December 2003, the Group had total future minimum lease rental payable under non-cancellable operating leases expiring as follows:

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**935**	324	**439**	—
In the second to fifth years, inclusive	**2,404**	1,294	**814**	—
After five years	**1,295**	1,618	**—**	—
	4,634	3,236	**1,253**	—

(b) Capital commitments

	Group	
	2003	2002
	RMB'000	*RMB'000*
Contracted, but not provided for:		
plant and machinery	**24,967**	21,230
Authorized, but not contracted for:		
plant and machinery	**78,979**	164,920
	103,946	186,150

29. RELATED PARTY TRANSACTION

The Group had the following related party transaction during the year ended 31 December 2003:

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-recurring transaction:				
Rental paid to Sing Lee Pharmaceutical Import & Export Co., Limited for lease of office premises	**319**	—	**319**	—

Sing Lee Pharmaceutical Import & Export Co., Limited is a company equally owned by Ms. Li Kei Ling and Mr. Hung Yung Lai.

30. POST BALANCE SHEET EVENTS

On 16 March 2004, the Company declared a final dividend for the year ended 31 December 2003, at HK$0.035 per share, amounting to a total sum of HK$28,000,000 (equivalent to approximately RMB29,839,600).

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 16 March 2004.