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**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 THE ANNUAL RESULTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

**RESULTS HIGHLIGHTS**

	For the year ended		
	31 December		
	2008	2007	Increase
	RMB'000	RMB'000	(%)
Revenue	947,710	919,945	3.0
Gross profit	256,663	239,502	7.2
Profit before tax	115,716	111,537	3.7
Profit for the year	102,131	101,157	1.0
Earnings per share-basic (RMB)	0.1290	0.1260	2.4
Proposed final dividend per share (HK\$)	0.040	0.038	5.3

The board (the "Board") of the directors (the "Directors") of Dawnrays Pharmaceutical (Holdings) Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008 together with the comparative amounts for 2007 as follows:

## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
<b>REVENUE</b>	4	947,710	919,945
Cost of sales		<u>(691,047)</u>	<u>(680,443)</u>
<b>Gross profit</b>		256,663	239,502
Other income and gain	4	5,072	4,320
Selling and distribution costs		(79,395)	(69,218)
Administrative expenses		(43,796)	(41,117)
Other expenses		(22,485)	(21,950)
Finance costs	5	<u>(343)</u>	<u>-</u>
<b>PROFIT BEFORE TAX</b>	6	115,716	111,537
Tax	7	<u>(13,585)</u>	<u>(10,380)</u>
<b>PROFIT FOR THE YEAR</b>		<u>102,131</u>	<u>101,157</u>
Attributable to:			
Equity holders of the parent		102,037	101,072
Minority interest		<u>94</u>	<u>85</u>
		<u>102,131</u>	<u>101,157</u>
<b>DIVIDENDS:</b>	8		
Interim		12,576	11,804
Proposed final		<u>27,477</u>	<u>28,224</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	9		
- basic, for profit for the year		<u>RMB0.1290</u>	<u>RMB0.1260</u>
- diluted, for profit for the year		<u>RMB0.1284</u>	<u>RMB0.1253</u>

## CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		248,935	223,017
Land use rights		23,078	23,225
Construction in progress		53,033	10,496
Prepayments		26,072	26,072
Intangible assets		14,631	14,632
Deferred tax assets		892	868
Total non-current assets		<u>366,641</u>	<u>298,310</u>
<b>CURRENT ASSETS</b>			
Inventories		159,536	124,435
Trade and notes receivables	10	391,041	341,170
Prepayments, deposits and other receivables		15,657	5,752
Financial assets at fair value through profit or loss		3,404	4,888
Cash and cash equivalents		<u>38,936</u>	<u>76,843</u>
Total current assets		<u>608,574</u>	<u>553,088</u>
<b>CURRENT LIABILITIES</b>			
Trade and notes payables	11	281,428	247,407
Other payables and accruals		36,348	22,843
Bank advances for discounted bills		24,907	-
Income tax payable		<u>3,319</u>	<u>2,142</u>
Total current liabilities		<u>346,002</u>	<u>272,392</u>
Net current assets		<u>262,572</u>	<u>280,696</u>
Total assets less current liabilities		<u>629,213</u>	<u>579,006</u>
<b>Net assets</b>		<u>629,213</u>	<u>579,006</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital		82,964	84,241
Reserves		518,100	465,887
Proposed final dividend	8	<u>27,477</u>	<u>28,224</u>
		628,541	578,352
<b>Minority interest</b>		<u>672</u>	<u>654</u>
<b>Total equity</b>		<u>629,213</u>	<u>579,006</u>

Notes:

## 1. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss that have been measured at fair value. The consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

### Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standard (“IASs”) and Interpretations) as issued by the International Accounting Standards Board (IASB) and the disclosure requirements of the Hong Kong Companies Ordinance.

## 2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2008.

- IAS 39 and IFRS 7 Amendments – Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12 – Service Concession Arrangements
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

The principal effects of these changes are as follows:

### (a) **Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets**

The amendments to IAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to IFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

**(b) IFRIC 11 IFRS 2 – Group and Treasury Share Transactions**

The Group has adopted IFRIC Interpretation 11 insofar as it applies to consolidated financial statements. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The Group has not issued any instruments caught by this interpretation.

**(c) IFRIC 12 – Service Concession Arrangements**

The IFRIC issued IFRIC 12 in November 2006. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

**(d) IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**

IFRIC Interpretation 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

**3. SEGMENT INFORMATION**

The Group is principally engaged in one business segment, the development, manufacture and sale of medicines, and most of its operations and assets are located in Mainland China. Therefore, no business segment or geographical segment information is presented.

**4. REVENUE, OTHER INCOME AND GAIN**

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 gain is as follows:

	Group	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
<b><u>Revenue</u></b>		
Sale of goods	<u>947,710</u>	<u>919,945</u>
<b><u>Other income</u></b>		
Bank interest income	936	945
Dividend income from financial assets at fair value through profit or loss	162	68
Foreign exchange differences	1,692	-
Government grant	350	50
Tax refund for reinvestment	1,247	1,265
Others	<u>685</u>	<u>690</u>
	<u>5,072</u>	<u>3,018</u>
<b><u>Gain</u></b>		
Gain on disposal of financial assets at fair value through profit or loss	-	1,302
	<u>5,072</u>	<u>4,320</u>

## 5. FINANCE COSTS

	Group	
	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Interest on bank advances for discounted bills	343	-

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Group	
	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Cost of inventories sold	688,288	677,200
Depreciation	22,827	23,143
Recognition of land use rights *	442	325
Research and development costs:		
Amortisation of intangible assets **	855	776
Current year expenditure	15,986	17,903
	<u>16,841</u>	<u>18,679</u>
Minimum lease payments under operating leases:		
Buildings	2,085	1,773
Auditors' remuneration	1,000	780
Employee benefit expense (including directors' remuneration):		
Wages and salaries	54,857	46,525
Equity-settled share option expense	609	864
Retirement costs	5,672	4,327
Accommodation benefits	2,271	1,532
Other benefits	8,641	5,916
	<u>72,050</u>	<u>59,164</u>
Foreign exchange differences, net ***	(1,692)	(3,815)
Impairment of trade receivables	-	418
Write-down of inventories to net realisable value	2,642	2,463
Impairment of intangible assets ****	385	4,166
Fair value losses, net:		
Financial assets at fair value through profit or loss	1,908	294
Bank interest income	(936)	(945)
Loss on disposal of items of property, plant and equipment	295	1,585
Loss/(gain) on disposal of financial assets at fair value through profit or loss	276	(1,302)

\* The recognition of land use rights for the year is included in "Administrative expenses" on the face of the consolidated income statement.

\*\* The amortisation of intangible assets for the year is included in "Other expenses" on the face of the consolidated income statement.

\*\*\* The foreign exchange differences, net for the year is included in "Other income" on the face of the consolidated income statement.

\*\*\*\* The impairment of intangible assets for the year is included in "Other expenses" on the face of the consolidated income statement.

## 7. TAX

The major components of income tax expense for the years ended 31 December 2008 and 2007 are:

	Group	
	2008	2007
	RMB'000	RMB'000
<i>Current income tax</i>		
Current income tax charge	13,654	10,440
Adjustments in respect of current income tax of previous years	(45)	153
<i>Deferred income tax</i>	<u>(24)</u>	<u>(213)</u>
Total tax charge for the year	<u>13,585</u>	<u>10,380</u>

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations. The undertaking for the Company is for a period of 20 years from 8 October 2002. Accordingly, the Company is not subject to tax.

Pursuant to the International Business Companies Act, 1984 ("IBC Act") of the British Virgin Islands, International Business Companies incorporated pursuant to the IBC Act enjoy a complete exemption from income tax. This includes an exemption from capital gains tax, and all forms of withholding tax. Accordingly, Dawnrays International is not subject to tax.

The Hong Kong subsidiaries are subject to a statutory corporate income tax rate of 16.5% (2007: 17.5%) under the income tax rules and regulations of Hong Kong. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2007: Nil).

According to the PRC Enterprise Income Tax Law with effective from 1 January 2008, the Mainland China Subsidiaries are all subject to income tax at the rate of 25% on their respective taxable income.

On 21 October 2008, Suzhou Dawnrays Pharmaceutical Co., Ltd. ("Suzhou Dawnrays Pharmaceutical") was qualified as a High-New Technology Enterprise ("HNTE") of Jiangsu province. As a result, Suzhou Dawnrays Pharmaceutical is entitled to a concessionary rate of income tax at 15% for three years commencing 1 January 2008.

Suzhou Dawnrays Chemical Co., Ltd. ("Suzhou Dawnrays Chemical") is 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. As Suzhou Dawnrays Chemical is in its fourth profitable year of operation, it is subject to corporate income tax of the PRC at a rate of 12.5% in 2008.

All other subsidiaries in Mainland China are subject to the corporate income tax rate of 25% in 2008.

## 7. TAX (continued)

A reconciliation between tax expense and the product of accounting profit multiplied by the PRC's domestic tax rate for the years ended 31 December 2008 and 2007 is as follows:

	Group	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Accounting profit before income tax	<u>115,716</u>	<u>111,537</u>
At the PRC's statutory income tax rate of 25% (2007: 33%)	28,929	36,807
Tax effect of profits entitled to tax concession or lower tax rate enacted by local authority	(13,417)	(26,043)
Effect on opening deferred tax of increase in rates	(615)	-
Tax credit for purchase of domestic equipments	(2,750)	-
Adjustments in respect of current income tax of previous years	(45)	153
Expenses not deductible for tax	210	217
Effect of temporary difference not recognised	366	-
Tax losses not recognised	1,021	-
Others	<u>(114)</u>	<u>(754)</u>
At the effective income tax rate of 11.74% (2007: 9.31%)	<u><u>13,585</u></u>	<u><u>10,380</u></u>

## 8. DIVIDENDS

	Company	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Interim - HK\$0.018 (2007: HK\$0.015) per ordinary share	12,576	11,804
Proposed final – HK\$0.040 (2007: HK\$0.038) per ordinary share	<u>27,477</u>	<u>28,224</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent divided by the weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.



**9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)**

The calculations of basic and diluted earnings per share are based on:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent	<u>102,037</u>	<u>101,072</u>
	<u>Number of Shares</u>	
	2008	2007
	Thousands	Thousands
<u>Shares</u>		
Weighted average number of ordinary shares used in the basic earnings per share calculation	791,000	802,039
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>3,745</u>	<u>4,523</u>
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>794,745</u>	<u>806,562</u>

**10. TRADE AND NOTES RECEIVABLES**

	<u>Group</u>	
	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Trade receivables	167,524	146,448
Impairment	<u>(3,361)</u>	<u>(3,361)</u>
	164,163	143,087
Notes receivable	<u>226,878</u>	<u>198,083</u>
	<u>391,041</u>	<u>341,170</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and notes receivables are non-interest-bearing.

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

	<u>Group</u>	
	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Trade receivables		
Outstanding balances with ages:		
Within 90 days	159,722	136,506
Between 91 and 180 days	2,853	5,463
Between 181 and 270 days	1,217	1,002
Between 271 and 360 days	120	67
Over one year	<u>251</u>	<u>49</u>
	<u>164,163</u>	<u>143,087</u>

**10. TRADE AND NOTES RECEIVABLES (continued)**

	<u>Group</u>	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Notes receivables		
Outstanding balances with ages:		
Within 90 days	87,359	114,721
Between 91 and 180 days	<u>139,519</u>	<u>83,362</u>
	<u>226,878</u>	<u>198,083</u>

The movements in provision for impairment of trade receivables are as follows:

	<u>Group</u>	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	3,361	2,976
Impairment losses recognised	-	418
Amount written off as uncollectible	<u>-</u>	<u>(33)</u>
At 31 December	<u>3,361</u>	<u>3,361</u>

The above provision for impairment of trade receivables is provided for individually impaired trade receivables with an aggregated carrying amount of RMB3,361,000 (2007: RMB3,361,000). The individually impaired trade receivables relate to customers with financial difficulties. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	<u>Group</u>	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	159,722	136,506
Less than three month past due	2,853	5,463
Over three months past due	<u>1,588</u>	<u>1,118</u>
	<u>164,163</u>	<u>143,087</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

## 11. TRADE AND NOTES PAYABLES

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

	Group	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances with ages:		
Within 90 days	152,170	148,974
Between 91 and 180 days	128,326	97,844
Between 181 and 270 days	640	213
Between 271 and 360 days	97	130
Over one year	195	246
	<u>281,428</u>	<u>247,407</u>

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.

## RESULTS

The Group has recorded the revenue of approximately RMB947,710,000 (2007: RMB919,945,000) for the year ended 31 December 2008, which was increased by 3.0% from the revenue of 2007. Profit attributable to equity holders of the parent was approximately RMB102,037,000 (2007: RMB101,072,000) which was approximate to last year. The increase in revenue was mainly due to the growth in the Group's system specific medicine business. In the 5 years since the Group's listing, the Group has been persisting in the expansion of its penetrating strength in cardiovascular system specific medicines market and focusing on establishing expert network and academic promotion. Therefore, our market share of system specific medicine has been further expanded. This did not only increase the Group's sales volumes, but it also improved the gross profit margin of the Group as a whole, as well as further optimized the structure of products. In addition, the Group adhered to the financial principle of tight cost control, and continued to optimize technologies of the manufacturing process, as such, production cost was further reduced. Under the current economic environment of credit crisis and financing difficulties caused by financial crisis which the world is facing, the Group has managed to maintain healthy and stable financial structure. For the year ended 31 December 2008, all the development projects of the Group have been funded by its own sufficient capital resources.

## FINAL DIVIDEND

The Board has resolved to declare a final dividend of HK\$0.040 per share for the year ended 31 December 2008, approximately amounting to the total sum of HK\$31,157,000 (approximately equivalent to RMB27,477,000).

Taking into consideration of the interim dividend of HK\$0.018 per share, the total annual dividend distributed for the year is HK\$0.058 per share. The dividend payout ratio is approximately 40%.

## OVERVIEW

In 2008, the operation of the Group was affected by various special events, but it was still stable in general. For example, the overseas export business of the Group grew rapidly in 2006 and 2007. Due to the “anti-dumping” policy of the India market and the strengthening of inspection by Europe and America on China manufactured foods and drugs, Chinese export enterprises faced a higher “non-tariff barriers”. As a result, the Group’s export business did not perform satisfactorily in 2008. However, the Group has been improving its technology platform and the quality control system continuously. Currently the Group is constructing or planning to construct cephalosporin and system specific medicine manufacturing facilities and production systems that can meet the American or European standards. It is because the Board believes that the entry barrier of China’s medicine market will be enhanced in the coming few years. The Group proactively uses manufacturing equipments and process with the international advanced technologies, to not only enhance the overall technology platform of the Group but also to enable the Group to take corporate social responsibility and build up a trust and reliable enterprise brand and social image in the mindset of the doctors and consumers.

In general, the development of medicine projects needs capital investment for more than one year. Our investment decision is formulated based on a long-term orientation and the huge medicine market of China, but not on the short fluctuation of economic cycle. In fact, the performance of the medicine industry of China is not positively correlated with the crises of the US financial industry.

The China market is still in the progress of further institutionalization and systemization. Step by step, the central government of China is committed to establish a medical insurance system. In such a progress, the Group will systematically observe and analyze the implementation and adjustment of national industry policy, which will lead us to launch relevant marketing strategy with prudence.

We have solid grounds to believe that, enterprises with strong marketing and innovation capability will have greater opportunities to become the leader of the medicine industry in China. The Group has always dedicated to establish itself as a “knowledge and technology-intensive” enterprise, so as to achieve the aim of refining its core competitive capability. The past history proves that an enterprise relying simply on increasing productivity may expand its sales volume, but it is difficult to gain rich gross profit margin and exhibit its dynamic capabilities. Only enterprises which have in-depth understanding about the market future prospect and have the capability of launching technological-leading products can outperform competitors in the fierce competition. Therefore, we shall establish an enterprise that has in-depth understanding about the China’s market and has leading technology in order to create value and satisfactory return for the shareholders.

In the markets outside China, we will continue to devote our focus on the regions which have growth potential, with a strategy to seize the opportunities through establishing cooperative partnership in those areas.

## **BUSINESS REVIEW**

### **PRODUCTION & SALES OPERATION**

The Group had adjusted its product composition according to the market conditions. For the year ended 31 December 2008, the production and sales volume of bulk medicines decreased 1.6% and 4.9% respectively compared with the corresponding period of last year. The production volume of powder of injections was increased 2.2% compared with the corresponding period of last year while the sales volume was almost the same. Production and sales volume of solid-dosage-forms also increased 12.0% and 15.6% respectively compared with the corresponding period of last year. Export sales as a percentage to total revenue was approximately 8%, representing 1% decrease compared with the corresponding period of last year.

### **DEVELOPMENT OF NEW PRODUCTS**

In 2008, the Group had applied to the State Food and Drug Administration of the PRC to register a total of 16 products and 23 events. There were 7 products approved for production by the State Food and Drug Administration of the PRC, together with 8 production permits and 3 certificates of new pharmaceutical products granted. In addition, the Group received 10 supplemental production permits for 10 products, 6 clinical trials permits for 4 products. Furthermore, the Group's had completed 5 products' clinical trials and engaged in clinical trials for 3 products.

### **CONSTRUCTION PROJECTS FOR THE EXPANSION OF PRODUCTION FACILITIES**

In order to improve the Group's product quality and strengthen its integrated production capacity, together with fulfilling its social responsibility in terms of environmental protection, every new construction project and optimizing reconstruction project planned by the Group since 2006 had been successively completed or reached the final stage of equipment installation and commissioning.

#### Pharmaceutical Chemical Intermediates

The major production workshop in phase I of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. was completed in November 2008. It had achieved successful trial production and was put into commercial production smoothly.

Suzhou Dawnrays Chemical Co., Ltd. had basically completed the phase II works of waste water treatment systems and strengthened its energy-saving and emission-reduction measures. This enhanced its ability in protection of community environment.

#### Bulk Medicines

Civil engineering works of the new bulk medicines workshop of Suzhou Dawnrays Pharmaceutical Co., Ltd had been completed. It had reached the stage of equipment installation and commissioning. The production line was expected to produce on schedule.

In addition, in response to the new requirements of GMP in China, Suzhou Dawnrays Pharmaceutical Co., Ltd carried out applicable reconstruction work for the existing two bulk medicines workshops.

## Pharmaceutical Preparations

In addition to the bulk medicines workshop, Suzhou Dawnrays Pharmaceutical Co., Ltd carried out applicable transformation for the PRC GMP for its two pharmaceutical preparation workshops at the same time. Also, the Group implemented production expansion transformation for the solid pharmaceutical preparation workshop among those workshops, so as to enhance its productivity.

In addition to the above projects, the Group had conducted project studies for the local land newly acquired by Suzhou Dawnrays Pharmaceutical Co., Ltd and intended to use it for producing non-cephalosporin bulk medicines and pharmaceutical preparations. The initial design of this project had been completed and submitted to the local government for approval.

## **PROSPECTS**

In 2008, the prices of chemical and energy commodities in global market experienced significant fluctuation. This brought violent fluctuation in the price of every production material and made it difficult to forecast the trend. The uncertainty in prices of production materials exposed the pharmaceutical enterprises of China into considerable difficulties in respect of formulating production plan and cost budget. In response to the difficulties, the Group has devoted proper management resources and established corresponding risk avoidance measures to control every production cost in budget, so as to reduce the impact of adverse factors on the Group's business. Despite in 2008, a series of significant disasters occurred in the PRC, together with the financial crisis of international society ever encountered in a century, which directly and indirectly affected China's economic development, and the downslide of the domestic demand, China's pharmaceutical market still grew due to the support of the State's policy that expanded the development room and fostered a growing operational environment for the pharmaceutical enterprises of China. The Group has accurately estimated the reform trend of medicine market, strictly adjusted the production and sales strategy in accordance with budget, improved the enterprise's management mechanism, optimized the business model and controlled the construction period of new industrial platform.

As the Group has mitigated effectively the adverse factors that it was exposed to, the Group had again captured the opportunities in 2008. Not only the sales results and profits value recorded good performance, but also the integrated structure of the Group was improved. This brought new element and solid foundation for the future development of the enterprise.

In January 2009, the Central Government, in principle, passed the views on deepening the reform of the pharmaceutical and health care system 《關於深化醫藥衛生體制改革的意見》 and relevant implementation schemes for the three year from 2009 to 2011, which stipulated the pharmaceutical and health care framework of China and the stage work targets of the next three years. According to initial estimation, governments at all levels are expected to invest RMB850 billion within three years to successfully set five reforms, including reform of basic medical care system. The coverage rate of the basic medical insurance system for urban residents and the new type of rural cooperative medical care system will be increased to over 90% within three years of implementing the schemes.

It is expected that, under the support of medical reform measures, the medicine market's capacity of China will continue to expand gradually and the demand for basic medicines will increase simultaneously. We estimate the major products of the Group will be included into National Basic Drugs Catalogue, which will promote the sales of such products in a more effective manner.

Benefiting from the measures of medical reform, the pharmaceutical market of China has promising prospect. The Group sets forth the enterprise's development in a timely, proper and appropriate manner, actively reconstructs its product chain and improves its core competitiveness. We have the ability of and confidence in catering for the new medical system in general and continuing to maintain good business development.

## FINANCIAL REVIEW

### SALES AND GROSS PROFIT

For the year ended 31 December 2008, the Group has achieved the turnover of approximately RMB947,710,000, equivalent to an increase of 3.0% compared with the corresponding period of last year. Gross profit was approximately RMB256,663,000 equivalent to an increase of 7.2% compared with the corresponding period of last year. Gross profit margin was increased by 1.1% to 27.1% (2007: 26.0%), which was mainly due to the increase in the turnover of powder of injection and system specific medicines compared with the corresponding period of last year.

### TABLE OF TURNOVER ANALYSIS

PRODUCT	TURNOVER (RMB'000)			SALES BREAKDOWN (%)		
	2008	2007	Changes	2008	2007	Changes
Bulk Medicines	<b>548,092</b>	569,279	-21,187	<b>57.83</b>	61.88	-4.05
Powder for Injections	<b>264,322</b>	239,532	24,790	<b>27.89</b>	26.04	1.85
Solid-Dosage-Forms	<b>135,296</b>	111,134	24,162	<b>14.28</b>	12.08	2.20
Overall	<b>947,710</b>	919,945	27,765	<b>100.00</b>	100.00	0.00

### EXPENSES

The Group has executed expenses budgeting. With the continuous growth in turnover, the total expenses incurred during the year increased 10.4% making total of approximately RMB146,019,000 compared with the corresponding period of last year, equivalent to 15.4% of turnover (2007: 14.4%). The increase was mainly because of the increase in promotion and marketing expenses for the exploitation of China and overseas markets which caused the selling and distribution costs increased by 14.7% to approximately RMB79,395,000 compared with the corresponding period of last year.

### PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

For the year ended 31 December 2008, profit attributable to equity holders of the parent amounted to approximately RMB102,037,000, which was approximate to last year.

### ANALYSIS ON THE RETURN ON ASSETS

As at 31 December 2008, net assets attributable to equity holders of the parent were approximately RMB628,541,000. Net return on net assets, which is defined as the profit attributable to equity holders of the parent divided by net assets attributable to equity holders of the parent, was 16.2% (2007: 17.5%). The current ratio and quick ratio was 1.76 and 1.30 respectively. Turnover days for trade and notes receivables was approximately 139 days. The turnover days for inventory was approximately 74 days.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the Group held cash and cash equivalents of approximately RMB38,936,000 (as at 31 December 2007: RMB76,843,000). During the year, the net cash inflow from operating activities was approximately RMB97,799,000 (2007: RMB130,551,000). Net cash outflow from investing activities was approximately RMB82,853,000 (2007: RMB61,666,000). Net cash outflow from financing activities was approximately RMB50,399,000 (2007: RMB30,645,000).

As at 31 December 2008, the debt ratio (defined as bank advances for discounted bills over total assets) of the Group was 2.6% (as at 31 December 2007: 0%).

As at 31 December 2008, the Group had aggregate bank facilities of approximately RMB595,000,000 (as at 31 December 2007: RMB543,400,000).

As at 31 December 2008, the Group's capital commitments amounted to approximately RMB113,370,000 (as at 31 December 2007: RMB103,859,000), which mainly derived for the construction of new bulk medicine workshop for cephalosporin products and re-engineering of old workshop in Suzhou Dawnrays Pharmaceutical Co., Ltd., the plant construction of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd., the construction of multi-functional workshop and environmental protection projects in Suzhou Dawnrays Chemical Co., Ltd., etc. The Group has sufficient financial and internal resources to bear the capital expenditure.

The Group had undertaken restructuring since 2007 by intra-group share transfer among some of the subsidiaries. As at 31 December 2008, the relevant changing procedures were completed. Save as aforesaid disclosure and the investment in the subsidiaries, the Group had no significant external investments or material acquisitions or disposal of subsidiaries and associated companies during the year.

## **FOREIGN EXCHANGE AND TREASURY POLICIES**

As the Group's substantial business transactions, 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 (if any) only if it will potentially impose a significant impact on the Group. The Group continues to observe the foreign exchange market, and may hedge against foreign currency risk with foreign exchange forward contracts if necessary.

## **STAFF AND REMUNERATION POLICY**

As at 31 December 2008, the Group employed 1,657 employees. For the year ended 31 December 2008, the total remuneration was approximately RMB72,050,000 (2007: RMB59,164,000). 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**

As at 31 December 2008, the Group had no asset being pledged to banks to obtain credit facilities (as at 31 December 2007: Nil).

## **CONTINGENT LIABILITIES**

As at 31 December 2008, the Group had no material contingent liabilities (as at 31 December 2007: 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**

During the year, the Company repurchased 16,464,000 shares of the Company's listed securities on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$11,534,080 before expenses. The monthly breakdown of shares repurchased during the year were as follows:

Month of repurchase	Number of shares repurchased	The highest price paid per share (HKD)	The lowest price paid per share (HKD)	Aggregate consideration paid (HKD)
January 2008	416,000	0.76	0.74	313,840
September 2008	4,232,000	0.78	0.72	3,167,080
October 2008	6,184,000	0.75	0.63	4,173,080
November 2008	3,596,000	0.71	0.66	2,454,520
December 2008	2,036,000	0.72	0.69	1,425,560
Total	<u>16,464,000</u>			<u>11,534,080</u>

The repurchased shares were subsequently cancelled. The nominal value of the cancelled shares was transferred to the capital redemption reserve and the premium payable on repurchase was charged against the share premium account. The repurchases were effected by the Directors for the enhancement of shareholder value in the long term.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities for the year ended 31 December 2008.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the Directors, the Company has complied with all code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the year ended 31 December 2008.

## **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 Company confirms that all the Directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the 2008 annual report.

## **AUDIT COMMITTEE**

The audited financial statements of the Company for the year ended 31 December 2008 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 Wednesday, 6 May 2009 to Friday, 8 May 2009 (both days inclusive) during which period no transfer of shares will be registered and effected. In order to qualify for the final dividend, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate share transfer forms 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 4:00p.m. on Tuesday, 5 May 2009.

## **APPRECIATION**

I would like to take this opportunity to express my sincere gratitude to the staff of the Group for their dedication and diligence.

By Order of the Board

**Li Kei Ling**

*Chairman*

Hong Kong, 26 March 2009

*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. Sik Siu Kwan.*