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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2004

The board of directors (the "Board") of Dawnrays Pharmaceutical (Holdings) Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2004 together with the comparative amounts for 2003 as follows:

RESULTS

The Group recorded a turnover of approximately RMB584,758,000 (2003: RMB491,388,000) for the year ended 31 December 2004, which was increased by 19.0% from that of 2003. Net profit from ordinary activities attributable to shareholders was approximately RMB80,171,000 (2003: RMB108,022,000), which was decreased by 25.8% from that of 2003. The growth in turnover was mainly attributable to the significant increase in the production and sales volume of cephalosporin powder for injection form and bulk medicine, as well as new types of generic drugs (system specific medicine) which successfully tapped into the market as planned (with an average gross profit margin over 70%). The decrease in profit was principally attributable to the following reasons:

1. On 7 June 2004, the National Development and Reform Commission of the PRC ordered a reduction in the retail price of antibiotics. The average rate of reduction in price for 24 species of antibiotics was about 30%. The Group took the initiative to reduce the ex-factory price of cephalosporin powder for injection form so as to expand its market share. In 2004, the sales volume of cephalosporin powder for injection form was increased by 51.4%, whilst the gross profit margin was 42.0% (2003: 54.6%), representing a decrease of 12.6%. The turnover of cephalosporin powder for injection form was RMB216,979,000 (2003: RMB230,976,000), representing a decrease of RMB13,997,000;

2. In 2004, the Group established an effective mechanism for optimizing technologies, marketing, research and development, as well as determining remuneration so as to motivate management. Experts in high-end technologies and marketing were recruited from competitors for the development of generic drugs (system specific medicine). Bonuses given during the year amounted to RMB7,422,000 (2003: Nil).

3. As the Group was listed on 11 July 2003, no expense was incurred in the head office in Hong Kong for the first half of 2003. In 2004, administrative expenses incurred in the head office in Hong Kong amounted to RMB9,979,000 (2003: RMB5,155,000), representing an increase of RMB4,824,000; and

4. In 2004, the Group devoted more efforts to the research and development of new products. Expenses on research and development amounted to RMB12,309,000 (2003: RMB10,305,000), representing an increase of RMB2,004,000.

FINAL DIVIDEND

The Board has declared a final dividend of HK$0.023 per share for the year ended 31 December 2004, amounting to a total sum of HK$18,400,000 (equivalent to RMB19,543,000).

Together with the interim dividend of HK$0.015 per share, this will bring the total dividend distribution for the year to HK$0.038 per share, representing a dividend payout of approximately 40%.

BUSINESS OUTLOOK

I. Analysis on market positioning of cephalosporin

According to the "China Medical Statistical Year Book 2002"《二零零二年中國藥業統計年報》, the market scale for finished preparations of cephalosporin in the PRC as a whole exceeded RMB10 billion in 2002. As indicated by such analysis, the growth in the consumption of cephalosporin per annum was increased by more than 20% in the recent five years.

The Group is principally engaged in the PRC in the manufacture and sale of non-patented chemical medicine, including cephalosporin bulk medicine and powder for injection form. It is one of the few third generation cephalosporin manufacturers in the PRC which has adopted a comprehensive vertically integrated production process. The Group plans to launch the fourth generation cephalosporin bulk medicine and powder for injection form into the market in 2005. Currently, the Group's solvent crystallisation techniques for cefoperazone is a leading technology employed in the PRC, having a market share of about 60% in the PRC. The market share of Ceftriaxone was about 30%.

As the market prospects of the production of cephalosporin is highly attractive, large pharmaceutical enterprises in the PRC, including State owned enterprises, foreign invested enterprises and private owned enterprises, are gradually starting to increase their investments in this industry. However, the PRC government is expected to further reduce the retail price of cephalosporin so that more people will be able to afford to use cephalosporin. Therefore, we consider that enterprises with adequate capital, technical process advantages and strong sales capabilities will have a competitive advantage in the cephalosporin pharmaceutical industry. Competition among such enterprises, in particular with respect to price, will also increase.

II. Analysis on market positioning of generic drugs (system specific medicine)

In an article titled "Game theory" of The Lex Column on page 14 of the Financial Times of UK published on 22 February 2005, it was stated that "*It is a testament to the woes of the pharmaceuticals sector that off-patent drugs have become its sexiest segment. In the US alone, some $60bn of prescription medicines will lose legal protection over the next four years, slowing industry revenue growth to 7-8 per cent per annum. By contrast, generics are winning market share, as cost pressures on healthcare providers increase, and should grow by more than 10 per cent a year*", and also in another article titled "Generics bring potent ingredient to drug mix" on page 16, it was stated that "*Novartis*[1] *predicts the generics market will be worth about $100bn by 2010, by which time it expects to have a 10 per cent share*". With doubts in the medical sector on the safety of the new drugs launched recently by major prescription drugs manufacturers resulting in some cases of suspension of production, as well as increasing concerns over the deficit incurred by the medical welfare funds of governments around the world, and the increase in pressure on reimbursement by private medical insurance arising from aging problems in the population, generic drugs (system specific medicine) are expected to be warmly received by communities.

Meanwhile, it is expected that the development of generic drugs will draw the attention of the pharmaceutical manufacturers to the distinct predictability in the market, lower costs in the development techniques, shorter product development cycle, higher gross profit margin, and longer cycle for profitability.

[1] Novartis Group, the largest Swiss pharmaceutical company with operations covering more than 140 countries and regions around the world.

III. Our strategies

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

1. Establishment of an expert network

In 2004, the Group successfully established an expert network which was formed by well known experts, such as Professor Zhong Nan Shan and Professor Mei Hua, who are very influential in the medical sector, as representatives. Such network provided support to the decision on the marketing strategies of the Group in the medical and pharmaceutical sectors.

2. Enhancement of research and development capabilities with integrated models of research and development, and launch generic drugs (system specific medicine) with huge market potential and business value

In 2004, the Group received 45 approvals on clinical testing and production from the State Food and Drug Administration of the PRC in total, which increased by 12 approvals as compared with the total of 33 approvals received in 2003. In 2005, it is prudently estimated that the Group will receive more than 40 approvals on clinical testing and production, which will include the fourth generation cephalosporin and several generic drugs (system specific medicine).

For cephalosporin, the Group will conduct further research so as to improve its technique and technologies, thereby reducing costs and enhancing yield rate.

As to generic drugs (system specific medicine), the Group will adopt various models for cooperation, which will facilitate knowledge exchange with various research institutes and multinational technology companies for determination on the academic orientation. Finasteride Tablet and Metformin Hydrochloride & Glibenclamide Tablet which commenced production in bulk in 2004 complemented the generic drugs (system specific medicine) portfolio of the Group that was previously made up of Amlodipine Besylate Tablet, Compound Ranitidine Capsule, Cetirizine Hydrochloride Tablet and Bismuth Potassium Citrate Capsule etc. Such portfolio will be developed to a greater extent in 2005 and 2006.

3. **Pool of resources and central coordination for marketing of generic drugs (system specific medicine)**

   In 2004, the Group devoted more efforts to the establishment of a new sales team for the marketing and sales of generic drugs (system specific medicine). A team dedicated to serve the medical sector was also established. Finasteride tablet which commenced production in 2004 and Amlodipine Besylate tablet which commenced production in 2002 were centrally coordinated by the new drug sales department. As at year end, the new drug sales department has about 30 offices across the PRC, and actively engaged in academic promotion activities in the medical sector.

4. **Scale of development and economies of scale**

   In 2004, the production capacity for the workshop of cephalosporin powder for injection form was upgraded to 240 million vials. As the average gross profit margin for cephalosporin is demonstrating a downward trend, the Group is expected to expand its output significantly in 2005 in order to expand the market share and cultivate the brand. At the same time, in June 2005, a workshop of 450 tonnes for cephalosporin bulk medicine will commence operation. Hence, the production capacity of the Group's third generation cephalosporin bulk medicine will exceed 800 tonnes, and account for about 30% of the total market share in the third generation cephalosporin bulk medicine in the PRC.

5. **Tapping into international market and actively seeking strategic partners for cooperation**

   Sales to overseas increased by four times compared with that in 2003, and amounted to RMB22,088,000. It is expected that, as a powerful sales strategy, through devoting more efforts to expand the international market for cephalosporin, the Group will be able to set off the effect of the government price reduction policy. Meanwhile, it will also solidify a foundation for expanding the sales of generic drugs (system specific medicine) in the international market.

   Under the premises of globalized economy and China's accession to World Trade Organisation, the Group has been actively seeking partners for strategic cooperation so as to expand its capital operation and provide opportunities for business development.

6. **Tightening cost control**

   The Group constructed and operated a system for the recycling of solvents, which is able to recycle 15,500 tonnes of chemical solvents per year, thereby reducing the production costs on the purchases of solvents.

IV. **Corporate governance**

The Board has established an Audit Committee and a Remuneration Committee, which contributed to the development of the Group into a more professional and international corporation, with respect to investment direction, product creation, officers' appointment and removal and remuneration structure. The Board will continue to improve the capabilities of the Group in the area of corporate governance, so as to enhance the flexibility and the science of the management platform. Effective internal control mechanism on financial management was also established, so as to maintain sustainable and healthy development of the enterprise. This will further solidify the foundation for the Group's growth in capital operations.

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 and recruitment 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 professionalization and internationalization. In 2004, share options to subscribe for about 3.5% (2003: 5%) of the Company's shares as at 31 December 2004 were granted to the senior management. The Group has always treated its management team as well as its staff nationwide as the most valuable intangible assets of the Group, which have been the greatest driving force behind 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 subsidiary companies and various departments who have used their best endeavours at work and dedicatedly served the Group in the past year.

BUSINESS REVIEW

1. **Production & Sales Operation**

Each of the Group's products in terms of production volume and sales volume recorded growth over the previous year. During the year, 371.4 tonnes of bulk medicine were produced, which was increased by 66.5% over the previous year. Sales of bulk medicine were 301.0 tonnes, which was increased by 66.5% over the previous year. 85,766,000 vials of cephalosporin powder for injection form were produced, which was increased by 35.9% over the previous year. Sales of cephalosporin powder for injection form were 85,736,000 vials, which was increased by 51.4% over the previous year. 8,915,000 boxes of generic drugs (system specific medicine) were produced, which was increased by 32.9% over the previous year. Sales of generic drugs (system specific medicine) were 8,396,000 boxes, which was increased by 28.1% over the previous year. Overseas export sales of medicine increased rapidly by about four times over the previous year to more than ten countries over Europe, South America and Asia.

2. **Products In The Pipeline**

In 2004, the Group obtained 22 production permits from the State Food and Drug Administration of the PRC. Of which, there were five new medicines, namely Cefuroxime Sodium Sterile bulk medicine, Cefixime bulk medicine, Finasteride bulk medicine, Finasteride tablet, Metformin Hydrochloride & Glibenclamide tablet. The Group was also awarded 23 permits for clinical testing. 16 projects for pre-clinical testing and 10 projects for clinical testing were completed. The Group's research and development team, completed a survey covering the local and global market, trend of frequent illness, trend of overall adjustment of medicine development and analysis of the outlook for all kinds of medicine markets, and incorporated the Group's special features and the direction of research and development, and completed the preliminary report on the development of products. A total of 20 projects were embarked in 2004.

3. **Recognitions obtained in 2004**

On 5 February 2004, Ceftriaxone Sodium Sterile bulk medicine and powder for injection form, and Amlodipine Besylate bulk medicine and its tablets were classified as projects under the Torch Plan in Jiangsu Province by the Department of Science and Technology of Jiangsu Province;

On 18 February 2004, the Company's research and development centre was endorsed by the Department of Science and Technology of Jiangsu Province as the first batch of foreign research and development entities in Jiangsu Province;

On 28 May 2004, Amlodipine Besylate bulk medicine and its tablet, a product of the Company, were endorsed by the Department of Science and Technology of Jiangsu Province as a high tech product of Jiangsu Province;

On 7 July 2004, Amlodipine Besylate bulk medicine and its tablet, a product of the Company, were endorsed by the Ministry of Science and Technology as a project under the State Torch Plan; and

On 12 August 2004, Xi Ke Wei (Cetirizine Hydrochloride Tablet), a product of the Company, was endorsed by the Department of Science and Technology of Jiangsu Province as a high tech product of Jiangsu Province.

4. **Construction projects for the expansion of production facilities**

The construction of engineering projects for the Group in 2004 proceeded as scheduled:

85% of the overall construction work of the new workshop of Suzhou Dawnrays Pharmaceuticals Co., Ltd. for the cephalosporin bulk medicine was completed. It is expected to commence operation in June 2005. After the construction is completed, it is expected that the output of cephalosporin will be increased by 450 tonnes. The Group's products will become more comprehensive and enjoy comparative advantage in terms of costs. It will also solidify the Group's leading position in third generation cephalosporin.

The project for the output expansion of Ceftriaxone Crude for Suzhou Dawnrays Chemical Co., Ltd. proceeded smoothly. After the construction is completed, it is expected to increase the output of Ceftriaxone Crude from 200 tonnes to 400 tonnes.

Expansion in the workshop of Suzhou Dawnrays Chemical Co., Ltd. for the recycling of solvents was completed successfully. The capability in recycling is now expanded to 15,500 tonnes per annum, and will provide enormous support as to cost savings for cephalosporin products.

As at the end of 2004, the projects of the pilot production workshop, upgrade of environmental protection facilities, and quality assurance for the Group established and commenced smoothly. It is expected to complete within the first half of 2005, which will optimize the infrastructure facilities and enhance the overall competitiveness of the Group.

PROSPECTS

The Group's principal product, third generation cephalosporin, has been the most popular medicine within its category in the PRC. It is anticipated that the demand of cephalosporin will increase in 2005. Various cephalosporin products of the Group have adopted our core technology. The potential growth of sales remains high. Sales of cephalosporin powder for injection form in 2005 will not be limited by the production capacity. With the 450 tonnes workshop for cephelosporin bulk medicine commencing operation in June 2005, it is expected that production capabilities and sales of cephalosporin bulk medicine will exceed 800 tonnes per annum. In 2005, the Group will also launch the fourth generation cephalosporin products into the market so as to assure its competitive edge. However, followed by the increasing keen competition in the cephalosporin medicine market, the market will be driven by the integrated and consolidated pharmaceutical business model of "Intermediate - Bulk medicine - Preparation medicine". Price competition will soon emerge. The Group will continue to devote efforts in strengthening antibiotics as a foundation for stable cashflow.

The Group has devoted a lot of efforts and resources to develop the business of generic drugs (system specific medicine) in 2004, which now accounts for about 9% of the total sales. The Group has improved its market expansion capability for system specific medicine and is now well positioned to grow. It is believed that satisfactory results will be achieved by strengthening marketing efforts and network building.

The Group has been implementing a standard system of corporate governance, which forms the basis for the conduct of globalization strategy. The Group will actively develop international trade and cooperation projects, and seek strategic cooperation in the international capital market so as to optimize the Group's capital structure, absorb premium resources and state-of-the-art management philosophies in the coming year.

FINANCIAL REVIEW

Sales and Gross Profit

During the year, the Group recorded a turnover of approximately RMB584,758,000, representing an increase of 19.0% as compared with the previous year. Gross profit was approximately RMB192,677,000, representing a decrease of 6.4% as compared with the previous year. Gross profit margin was 32.9% (2003: 41.9%). The main reasons for the decrease in gross profit margin are as follows: firstly, the Group took the initiative in reducing prices of cephalosporin powder for injection form to gain higher market share; secondly, the Group increased sales proportion of bulk medicine which has relatively lower gross profit margin.

During the year, sales of bulk medicine amounted to RMB311,457,000, representing an increase of 48.3% as compared with RMB209,950,000 of the previous year. Sales of bulk medicine accounted for 53.2% of total sales (2003: 42.7%). Gross margin of bulk medicine was approximately 19.3% (2003: 20.2%).

Sales of powder for injection form amounted to RMB216,979,000, representing a decrease of 6.1% as compared with RMB230,976,000 of the previous year. Sales of powder for injection form accounted for 37.1% of total sales (2003: 47.0%). Gross margin of powder for injection form was approximately 42.0% (2003: 54.6%).

Sales of generic drugs (system specific medicine) amounted to RMB51,554,000, representing an increase of 5.9% as compared with RMB48,681,000 of the previous year. The proportion of generic drugs (system specific medicine) to total sales was 8.8% (2003: 9.9%). Gross profit margin for generic drugs (system specific medicine) was approximately 73.6% (2003: 77.5%).

During the year, overseas export sales increased rapidly as compared with the previous year, which was mainly attributable to the increased overseas export sales of bulk medicine from RMB3,769,000 of the previous year to RMB21,086,000 of this year, representing an increase of 459%.

Expenses

Total expenses incurred during the year amounted to approximately RMB108,221,000, representing an increase of 14.7% over the previous year. Total expenses as a percentage of turnover was 18.5% (2003: 19.2%).

Of which, selling and distribution costs amounted to RMB58,987,000, representing an increase of 3.9% over the previous year. Selling and distribution costs as a percentage of turnover was 10.1% (2003: 11.6%).

Administrative expenses and other operating expenses amounted to RMB49,234,000, representing an increase of 34.0% over the previous year. The increase was due to the full year operation of the head office in Hong Kong, increase in research and development expenditure, and the giving of bonuses to attract experts and attractive remuneration to motivate core members with technology expertise.

Net Profit From Operating Activities Attributable to Shareholders

During the year, net profit from operating activities attributable to shareholders amounted to RMB80,171,000, representing a decrease of approximately 25.8% as compared with the previous year.

Analysis on return of assets

As at 31 December 2004, net assets of the Group were about RMB411,471,000. Net return on assets, which is defined as the net profit from operating activities attributable to shareholders divided by net assets, was 19.5 %. The turnover days for account receivables on bulk medicine (including notes receivables) was about 135 days. The turnover days for the account receivables on cephalosporin powder for injection form and generic drugs (system specific medicine) was about 100 days, whilst the inventory turnover was about 65 days.

Cashflow

As at 31 December 2004:

1 Net cash inflows from operating activities were RMB73,740,000;

2 Expenditures on construction projects and purchases of fixed assets amounted to RMB63,964,000; and

3 Profit distributions (including dividend paid to minority shareholders) amounted to RMB42,889,000.

As at 31 December 2004, the Group has RMB98,382,000 cash and cash equivalents, and no bank loans.

Liquidity, financial resources and capital structure

As at 31 December 2004, the Group's current assets amounted to approximately RMB435,900,000, whilst current liabilities was approximately RMB274,896,000. Net current assets were approximately RMB161,004,000.

As at 31 December 2004, the Group has aggregate bank facilities of approximately RMB387,000,000, with no asset being pledged to banks.

As at 31 December 2004, the Group's capital commitments amounted to approximately RMB91,989,000 which will be funded by proceeds from listing and by internal resources.

Financial management, financial instruments and exchange rate risk

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

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

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

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

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

Staff

Human resources is the most valuable assets of the Group. A professional, pragmatic, and highly efficient management team together with the staff as a whole is the Company's most valuable competitive advantage. The Group provides a competitive remuneration policy.

As at 31 December 2004, the Group employed approximately 1,200 employees (31 December 2003: approximately 749 employees) with attractive remuneration and employee benefits such as defined contribution retirement schemes, share option scheme and medical coverage. The Group provides certain of its employees in PRC with dormitory accommodation, and makes monthly contribution to State unemployment insurance funds and State housing fund for the employees in the PRC. During the year, staff costs amounted to RMB39,682,000 (31 December 2003: RMB27,537,000).

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

Options in respect of about 3.5% of shares in the Company as at 31 December 2004 has been granted by the Company to Eligible Persons during the year.

Charge on assets

As at 31 Decmber 2004, no asset of the Company was pledged to banks to obtain credit facilities.

Plans for significant investments and expected source of funding

Details of the Group's future plans for significant investments and their expected source of funding have been stated in the Company's prospectus dated 30 June 2003 under the section headed "Future Plans and Use of Proceeds".

In order to further expand the Group's production facilities, the Group plans to invest RMB38,823,000 to construct five infrastructure projects commencing from 2005:

1. A multi-function pilot production workshop for Suzhou Dawnrays Pharmaceuticals Co., Ltd. of around RMB4,575,000;

2. A workshop of cephalosporin in solid form for Suzhou Dawnrays Pharmaceuticals Co., Ltd. of around RMB15,570,000;

3. An integrated warehouse for Suzhou Dawnrays Pharmaceuticals Co., Ltd. of around RMB10,000,000;

4. Upgrade of auxiliary utilities facilities for the whole plant of Suzhou Dawnrays Chemical Co., Ltd. of around RMB7,112,000; and

5. Expansion of the workshop for the intermediates of cephalosporin for Suzhou Dawnrays Chemical Co., Ltd. of around RMB1,566,000.

Other than those disclosed above, the Group did not have any plan for material investments or acquisition of capital assets.

Contingent liabilities

As at 31 December 2004, the Group had no material contingent liabilities (31 December 2003: Nil).

AUDITED CONSOLIDATED RESULTS

	Notes	**2004** ***RMB'000***	**2003** *RMB'000*
TURNOVER	5	**584,758**	491,388
Cost of sales		**(392,081)**	(285,485)
Gross profit		**192,677**	205,903
Other revenue	5	**1,956**	867
Selling and distribution costs		**(58,987)**	(56,795)
Administrative expenses		**(34,375)**	(26,231)
Other operating expenses		**(14,859)**	(10,511)
PROFIT FROM OPERATING ACTIVITIES	6	**86,412**	113,233
Finance costs	7	**—**	(809)
PROFIT BEFORE TAX		**86,412**	112,424
Tax	8	**(6,225)**	(3,996)
PROFIT BEFORE MINORITY INTERESTS		**80,187**	108,428
Minority interests		**(16)**	(406)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**80,171**	108,022
DIVIDENDS	9		
Interim		**12,760**	12,760
Proposed final		**19,543**	29,840
		32,303	42,600
EARNINGS PER SHARE			
Basic	10	**RMB0.1002**	RMB0.1551

Notes:

1. **Basis of preparation**

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. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain short term listed investments.

2. **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries are prepared using consistent accounting policies. Subsidiaries are consolidated from the date on which control is transferred to the Group and ceased to be consolidated from the date on which control is transferred out of the Group. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

The consolidated financial statements for the year ended 31 December 2003 had been prepared by adopting uniting of interests method of accounting as a result of the Group Reorganisation which involved entities under common control. Under this method, the Company had been treated as the holding company of its subsidiaries for the year ended 31 December 2003 rather than from the date of acquisition of the subsidiaries. The consolidated results, statements of changes in equity, cash flows and the consolidated balance sheets of the companies now comprising the Group had been prepared as if the current Group structure had been in existence throughout 2003.

3. **Impact of recently issued International Financial Reporting Standards**

The following revised, amended and new standards which are generally effective for accounting periods beginning on or after 1 January 2005 may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented:

- IAS 1 Presentation of Financial Statements (amended 2004);
- IAS 2 Inventories (revised 2003);
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (revised 2003);
- IAS 10 Events after the Balance Sheet Date (amended 2004);
- IAS 16 Property, Plant and Equipment (amended 2004);
- IAS 17 Leases (amended 2004);
- IAS 24 Related Party Disclosures (revised 2003);
- IAS 27 Consolidated and Separate Financial Statements (amended 2004);
- IAS 32 Financial Instruments: Disclosure and Presentation (amended 2004);
- IAS 33 Earnings per Share (amended 2004);
- IAS 39 Financial Instruments: Recognition and Measurement (amended 2004); and
- IFRS 2 Share-Based Payments.

The Group has not early adopted these revised, amended and new standards for the year end 31 December 2004. The Group has commenced its assessment of the impact of these standards but it is not yet in a position to state whether these standards would have a material impact on its results of operations and financial position.

4. **Segment information**

The Group's turnover and profit were mainly derived from the sale of medicines by the subsidiaries located and operated in the PRC 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.

5. **Turnover and 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.

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Turnover		
Sale of goods	**585,058**	491,881
Less: Sales tax and government surcharges	**(300)**	(493)
Turnover	**584,758**	491,388
Other revenue		
Interest income from bank balances	**1,165**	770
Government grants	**50**	67
Dividend income from short term investments	**110**	—
Gain on disposal of short term investments	**105**	8
Others	**526**	22
Other revenue	**1,956**	867
Total revenue	**586,714**	492,255

6. **Profit from operating activities**

The Group's profit from operating activities is arrived at after charging/(crediting):

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Auditors' remuneration	**691**	893
Cost of inventories sold	**392,081**	285,485
Amortisation of:		
Deferred development costs*	**742**	566
Land use rights**	**306**	212
Depreciation	**12,389**	6,097
Loss on disposal of property, plant and equipment	**1,427**	128
Minimum lease payments under operating leases in respect of buildings	**963**	631
Staff costs (including directors' remuneration):		
Retirement costs	**4,071**	2,715
Accommodation benefits	**2,734**	1,348
Salaries and other staff costs	**32,877**	23,474
Total staff costs	**39,682**	27,537
Research and development costs	**12,309**	10,305
Exchange losses, net	**42**	48
Unrealised loss on revaluation of short term investments	**247**	—
Interest income	**(1,165)**	(770)
Dividend income from short term investments	**(110)**	—
Gain on disposal of short term investments	**(105)**	(8)

* The amortisation of deferred development costs for the year are included in "Other operating expenses" on the face of the consolidated income statement.

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

7. **Finance costs**

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Interest on bank loans	**—**	897
Less: Interest capitalised	**—**	(88)
	—	809

8. **Tax**

(a) *Income tax expense*

The income tax expense, all current, charged to the consolidated income statement for the year ended 31 December 2004 was as follows:

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Income tax expense	**7,947**	13,704
Tax refund	**(1,722)**	(9,708)
	6,225	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 Pharmaceutical Technology Co., Ltd. ("Suzhou Dawnrays Technology") and Shanghai Dawnrays Chemical Co., Ltd. ("Shanghai Dawnrays Chemical"), which operate in approved economic development zones of the PRC, are exempted from corporate income tax of the PRC for the two years starting from the first profitable year of operation, after setting off losses carried forward, and are entitled to a 50% relief from corporate income tax of the PRC for the following three years.

Suzhou Dawnrays Pharmaceuticals is in its fourth profitable year in 2004 and therefore its applicable income tax rate is 12%. However, Suzhou Dawnrays Pharmaceuticals obtained tax approval from the relevant tax authorities as a qualified foreign-owned manufacturing enterprise engaging in technology-intensive and knowledge-intensive projects ("Double-intensive Enterprise"). According to PRC tax laws and regulations, Suzhou Dawnrays Pharmaceuticals is subject to the corporate income tax of the PRC at a rate of 7.5% from 1 January 2003 to 31 December 2005, and at 15% from 1 January 2006 onwards. Its status as a Double-intensive Enterprise is subject to periodic reassessment by the relevant PRC government authorities.

The paid-up capital of Suzhou Dawnrays Pharmaceuticals was increased by US$15,000,000 from US$10,000,000 to US$25,000,000 during the year. According to PRC tax laws and regulations, taxable profits generated in the first two years and the three years thereafter from the aforesaid additional capital is exempted from corporate income tax and 50% at a reduced tax rate, respectively. The relevant PRC tax laws and regulations also granted enterprises qualified an option to use the tax concession in respect of the taxable profit in the following year after the additional capital has been contributed. Since the operation period for the aforesaid additional capital injected is less than six months, Suzhou Dawnrays Pharmaceuticals has opted to commence the tax concession in 2005. Consequently, profits generated from the aforesaid additional capital is still subject to the corporate income tax of the PRC at a rate of 7.5% in 2004.

Shanghai Dawnrays Chemical is in its third profitable year based on the income for statutory financial reporting purposes. It is subject to the corporate income tax of the PRC at a rate of 12% and local corporate income tax at a rate of 1.5% from 1 January 2004 to 31 December 2006.

Suzhou Dawnrays Chemical and Suzhou Dawnrays Technology had no assessable profits and therefore, no provision for income tax has been made for the year.

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

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

Group — 2004

	RMB'000	*%*
Profit before tax	**86,412**	
Tax at the statutory tax rate	**28,516**	33.0
Lower tax rate for specific provinces or local authorities	**(21,735)**	(25.2)
Expenses not deductible for tax	**1,166**	1.3
Tax charge at the Group's effective rate	**7,947**	9.1

Group — 2003

	RMB'000	*%*
Profit before tax	112,424	
Tax at the statutory tax rate	37,100	33.0
Lower tax rate for specific provinces or local authorities	(23,609)	(21.0)
Expenses not deductible for tax	213	0.2
Tax charge at the Group's effective rate	13,704	12.2

(b) *Tax refund*

As Suzhou Dawnrays Pharmaceuticals is an approved Double-intensive Enterprise as mentioned above, Suzhou Dawnrays Pharmaceuticals received a refund of the excess of the corporate income tax paid in 2003 in relation to the aforesaid reduced corporate income tax rate amounting to RMB4,818,000 in 2004.

Pursuant to board resolutions of Suzhou Dawnrays Pharmaceuticals dated 15 December 2003 and 8 March 2004, Suzhou Dawnrays Pharmaceuticals declared a dividend of RMB82,205,630 to Dawnrays International Company Limited ("Dawnrays International") pertaining to the year ended 31 December 2003. Pursuant to board resolutions of Dawnrays International dated 18 December 2003 and 9 March 2004, Dawnrays International reinvested the aforesaid dividend of RMB82,205,630 into Suzhou Dawnrays Pharmaceuticals. According to PRC tax laws and regulations, Dawnrays International accrued a tax refund in relation to the aforesaid reinvestment amounting to RMB9,708,000 in 2003, based on the then effective corporate income tax of 12%. As Suzhou Dawnrays Pharmaceuticals is now an approved Double-intensive Enterprise, Dawnrays International reduced the tax refund accrued in relation to the aforesaid reinvestment to RMB6,612,000 by RMB3,096,000 which has been charged to the current year tax expense.

9. **Dividends**

	Company	
	2004	**2003**
	RMB'000	*RMB'000*
Dividend pertaining to the prior year declared during the year	**29,840**	69,245
Interim - HK$0.015 (2003: HK$0.015) per ordinary share	**12,760**	12,760
	42,600	82,005
Proposed final - HK$0.023 (2003: HK$0.035) per ordinary share	**19,543**	29,840

On 7 March 2005, the Company declared a final dividend for the year ended 31 December 2004, at HK$0.023 per share, amounting to a total sum of HK$18,400,000 (equivalent to RMB19,543,000).

10. **Earnings per share**

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of RMB80,171,000 (2003: RMB108,022,000), and the weighted average of 800,000,000 (2003: 696,438,356) ordinary shares in issue during the year.

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 2004 has not been presented, as the share options outstanding during the year had an anti-dilutive effect on the basic earnings per share calculation.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited for the year ended 31 December 2004.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

The audited financial statements of the Company for the year ended 31 December 2004 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 Monday, 18 April 2005 to Friday, 22 April 2005 (both days inclusive) during which period no transfer of shares of the Company 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, 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, 15 April 2005.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

All the financial and other related information of the Company required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in force prior to 31 March 2004, which remain applicable to results announcement in respect of accounting periods commencing before 1 July 2004 under transitional arrangements, will be published on the Stock Exchange's website in due course.

By Order of the Board
Li Kei Ling
Chairman

Hong Kong, 7 March 2005

As at the date of this announcement, the Board comprises nine directors, of which six are executive directors, namely Ms. Li Kei Ling, Mr. Hung Yung Lai, Mr. Zhang Jing Xing, Mr. Lam Kam Wah, Mr. Li Tung Ming and Mr. Xu Kehan; three are independent non-executive directors, namely Mr. Pan Xue Tian, Mr. Lee Cheuk Yin Dannis and Mr. Choi Tat Ying Jacky.