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 2011

RESULTS HIGHLIGHTS

	For the year ended 31 December		
	2011	2010	Changes
Revenue(RMB'000)	1,081,044	1,286,683	-16.0%
Gross profit(RMB'000)	362,752	376,157	-3.6%
Gross profit margin (%)	33.6%	29.2%	+4.4 percentage points
Profit before tax(RMB'000)	179,187	208,879	-14.2%
Profit for the year(RMB'000)	146,307	166,838	-12.3%
Net profit margin (%)	13.5%	13.0%	+0.5 percentage point
Earnings per share attributable to ordinary equity holders of the parent-basic (RMB)	0.1834	0.2104	-12.8%
Proposed final dividend per share (HK$)	0.068	0.078	-12.8%

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 2011(the "reporting period") together with the comparative amounts for 2010 as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011	2010
		RMB'000	*RMB'000*
REVENUE	5	1,081,044	1,286,683
Cost of sales		(718,292)	(910,526)
Gross profit		362,752	376,157
Other income and gains	5	16,601	9,145
Selling and distribution costs		(100,861)	(95,673)
Administrative expenses		(55,777)	(48,884)
Other expenses		(41,369)	(31,317)
Finance costs	6	(2,159)	(549)
PROFIT BEFORE TAX	7	179,187	208,879
Income tax expense	8	(32,880)	(42,041)
PROFIT FOR THE YEAR		146,307	166,838
Attributable to:			
Owners of the parent		146,307	166,840
Non-controlling interest		-	(2)
		146,307	166,838
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
- basic, for profit for the year		RMB0.1834	RMB0.2104
- diluted, for profit for the year		RMB0.1826	RMB0.2093

Details of the dividends payable and proposed for the year are disclosed in note 9 to the results announcement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	2011	2010
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	146,307	166,838
Exchange differences	(1,055)	(786)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(1,055)	(786)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	145,252	166,052
Attributable to:		
Owners of the parent	145,252	166,054
Non-controlling interest	-	(2)
	145,252	166,052

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2011

	Notes	2011 *RMB'000*	2010 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		278,323	269,416
Land use rights		45,380	46,421
Construction in progress		228,074	117,030
Intangible assets		17,604	14,914
Deferred tax assets		1,738	1,264
Total non-current assets		571,119	449,045
CURRENT ASSETS			
Inventories		176,010	181,868
Trade and notes receivables	11	442,989	499,495
Prepayments, deposits and other receivables		12,892	15,830
Equity investments at fair value through profit or loss		4,707	6,244
Pledged bank deposits		88,294	-
Restricted bank deposits		-	49,700
Cash and cash equivalents		97,805	210,975
Total current assets		822,697	964,112
CURRENT LIABILITIES			
Trade and notes payables	12	269,212	427,044
Other payables and accruals		71,054	76,499
Bank advances for discounted bills		-	100
Interest-bearing bank loans		110,458	51,056
Income tax payable		6,482	9,827
Total current liabilities		457,206	564,526
NET CURRENT ASSETS		365,491	399,586
TOTAL ASSETS LESS CURRENT LIABILITIES		936,610	848,631
NON-CURRENT LIABILITIES			
Government grants		1,500	-
Deferred tax liability		16,232	13,677
Total non-current liabilities		17,732	13,677
Net assets		918,878	834,954
EQUITY			
Equity attributable to owners of the parent			
Issued capital		84,707	84,578
Reserves		790,044	697,904
Proposed final dividend	9	44,127	52,472
		918,878	834,954
Non-controlling interest		-	-
Total equity		918,878	834,954

Notes:

1. BASIS OF PREPARATION

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 Standards ("IASs") and Interpretations) as issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They 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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
IFRIC-Int 14 Amendments	Amendments to IFRIC-Int 14 *Prepayments of a Minimum Funding Requirement*
IFRIC-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

Other than as further explained below regarding the impact of IAS 24 (Revised), and amendments to IFRS 3, IAS 1 and IAS 27 included in *Improvements to IFRSs 2010*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these IFRSs are as follows:

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES(continued)

(a) IAS 24 (Revised) Related Party Disclosures

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) Improvements to IFRSs 2010 issued in May 2010 sets out amendments to a number of IFRSs

IAS 1 Presentation of Financial Statements: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

IAS 27 Consolidated and Separate Financial Statements: The amendment clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
IFRS 7 Amendments	Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets[1]
	Amendments to IFRS 7 Financial Instruments:Disclosures–Offsetting Financial Assets and Financial Liabilities[4]
IFRS 9	Financial Instruments[6]
IFRS 10	Consolidated Financial Statements[4]
IFRS 11	Joint Arrangements[4]
IFRS 12	Disclosure of Interests in Other Entities[4]
IFRS 13	Fair Value Measurement[4]
IAS 1 Amendments	Amendment to IAS 1-Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income[3]
IAS 12 Amendments	Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets[2]
IAS 19 (2011)	Employee Benefits[4]
IAS 27 (2011)	Separate Financial Statements[4]
IAS 28 (2011)	Investments in Associates and Joint Ventures[4]
IAS 32 Amendments	Amendments to IAS 32 Financial Instruments:Presentation–Offsetting Financial Assets and Financial Liabilities[5]
IFRIC-Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

4. SEGMENT INFORMATION

For management purposes, the Group organizes the business units based on their products.

For management purposes, the Group's business is organized into the following two reportable segments:

a) Manufacture and sale of intermediates and bulk medicines
b) Manufacture and sale of finished drugs (including antibiotics finished drugs and non-antibiotics finished drugs)

Management monitors the operating results of these operating segments for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, government grants, dividend income, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, restricted bank deposits, pledged bank deposits, cash and cash equivalents, equity investments at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank loans, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2011	Intermediates and bulk medicines *RMB'000*	Finished drugs *RMB'000*	Elimination of intersegment sales *RMB'000*	Total *RMB'000*
Segment Revenue:				
Sales to external customers	556,829	524,215	-	1,081,044
Intersegment sales	111,824	-	(111,824)	-
	668,653	524,215	(111,824)	1,081,044
Segment Results	6,304	254,663	-	260,967
Reconciliation:				
Unallocated gains				13,227
Corporate and other unallocated expenses				(92,848)
Finance costs				(2,159)
Profit before tax				179,187

4. SEGMENT INFORMATION (continued)

Year ended 31 December 2010	Intermediates and bulk medicines *RMB'000*	Finished drugs *RMB'000*	Elimination of intersegment sales *RMB'000*	Total *RMB'000*
Segment Revenue:				
Sales to external customers	813,415	473,268	-	1,286,683
Intersegment sales	114,259	-	(114,259)	-
	927,674	473,268	(114,259)	1,286,683
Segment Results	106,230	174,421	-	280,651
Reconciliation				
Unallocated gains				7,752
Corporate and other unallocated expenses				(78,975)
Finance costs				(549)
Profit before tax				208,879

As at 31 December 2011	Intermediates and bulk medicines *RMB'000*	Finished drugs *RMB'000*	Total *RMB'000*
Segment Assets:	643,964	390,173	1,034,137
Reconciliation:			
Corporate and other unallocated assets			359,679
Total assets			1,393,816
Segment Liabilities:	233,347	52,425	285,772
Reconciliation:			
Corporate and other unallocated liabilities			189,166
Total liabilities			474,938

As at 31 December 2010	Intermediates and bulk medicines *RMB'000*	Finished drugs *RMB'000*	Total *RMB'000*
Segment Assets:	791,419	257,067	1,048,486
Reconciliation:			
Corporate and other unallocated assets			364,671
Total assets			1,413,157
Segment Liabilities:	417,237	49,871	467,108
Reconciliation:			
Corporate and other unallocated liabilities			111,095
Total liabilities			578,203

4. SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2011	2010
	RMB'000	*RMB'000*
Mainland China	904,819	1,071,893
India	76,834	128,484
Other countries	99,391	86,306
	1,081,044	1,286,683

The revenue information above is based on the location of the customers.

(b) Non-current assets

The Group's operations are substantially based in Mainland China and significantly all of the non-current assets of the Group are located in Mainland China. Therefore, no further analysis of geographical information is presented.

None of the Group's customers in either year contributed over 10% of the total revenue of the Group.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gains is as follows:

	Group	
	2011	2010
	RMB'000	*RMB'000*
Revenue		
Sale of goods	1,081,044	1,286,683
Other income		
Bank interest income	3,801	2,308
Dividend income from equity investments at fair value through profit or loss	189	174
Foreign exchange differences	3,316	265
Government grants	6,788	4,475
Others	2,415	1,807
	16,509	9,029
Gains		
Gain on disposal of equity investments at fair value through profit or loss	92	54
Fair value gains, net:		
Equity investments at fair value through profit or loss	-	62
	92	116
	16,601	9,145

6. FINANCE COSTS

	Group	
	2011	2010
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	2,159	549

7. PROFIT BEFORE TAX

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

	Group	
	2011	2010
	RMB'000	*RMB'000*
Cost of inventories sold	712,052	902,667
Depreciation	27,163	24,742
Recognition of land use rights *	1,041	1,041
Research and development costs:		
Amortisation of intangible assets **	1,091	1,061
Current year expenditure	31,196	27,088
	32,287	28,149
Minimum lease payments under operating leases:		
Buildings	1,831	1,579
Auditors' remuneration	1,200	1,100
Employee benefit expense (including directors' remuneration):		
Wages and salaries	74,141	69,523
Equity-settled share option expense	3,374	187
Retirement benefits	7,134	6,701
Accommodation benefits	3,074	2,718
Other benefits	12,912	10,629
	100,635	89,758
Foreign exchange differences, net	(3,316)	(265)
Reversal of impairment of trade receivables	(225)	(190)
Write-down of inventories to net realisable value	4,062	1,524
Fair value loses/(gains), net:		
Equity investments at fair value through profit or loss	1,630	(62)
Bank interest income	(3,801)	(2,308)
Loss on disposal of items of property, plant and equipment	473	144
Gain on disposal of equity investments at fair value through profit or loss	(92)	(54)

* 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.

8. INCOME TAX

The major components of income tax expense for the years ended 31 December 2011 and 2010 are:

	Group	
	2011	2010
	RMB'000	*RMB'000*
Current income tax		
Current income tax charge	27,644	35,612
Adjustments in respect of current income tax in previous years	(1,734)	(1,192)
Deferred income tax	6,970	7,621
Total tax charge for the year	32,880	42,041

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, income, 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.

The subsidiary incorporated in the British Virgin Islands ("BVI") is not subject to income tax, as this subsidiary does not have a place of business (other than a registered office only) or carry out any business in BVI.

The Hong Kong subsidiaries are subject to a statutory corporate income tax rate of 16.5% (2010: 16.5%) 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 its respective Hong Kong subsidiaries during the year (2010: Nil).

According to the PRC Enterprise Income Tax Law 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 had been entitled to a concessionary rate of income tax at 15% for three years commencing 1 January 2008. During the year ended 31 December 2011, Suzhou Dawnrays Pharmaceutical renewed the qualification of the 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 2011.

All other subsidiaries in Mainland China are subject to the corporate income tax rate of 25% in 2011.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

8. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries or jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	Group	
	2011	2010
	RMB'000	*RMB'000*
Accounting profit before income tax	179,187	208,879
At the PRC's statutory income tax rate of 25% (2010: 25%)	44,797	52,220
Tax effect of profits entitled to tax concession or lower tax rate enacted by local authority	(16,664)	(17,483)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	7,444	7,679
Adjustments in respect of current income tax of previous years	(1,734)	(1,192)
Expenses not deductible for tax	586	771
Tax credit for qualified research and development expense	(1,989)	-
Tax losses not recognised	440	745
Tax losses from previous periods utilised	-	(699)
At the effective income tax rate of 18.35% (2010: 20.13%)	32,880	42,041

9. DIVIDENDS

	Company	
	2011	2010
	RMB'000	*RMB'000*
Interim - HK$0.020 (2010: HK$0.020) per ordinary share	13,070	13,726
Proposed final – HK$0.068 (2010: HK$0.078) per ordinary share	44,127	52,472
	57,197	66,198

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

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 797,935,616 (2010: 793,033,436) in issue during the year.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share 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.

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

	2011	2010
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	146,307	166,840

	Number of shares	
	2011	2010
	Thousands	Thousands
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	797,936	793,033
Effect of dilution – weighted average number of ordinary shares:		
Share options	3,163	3,935
Weighted average number of ordinary shares adjusted for the effect of dilution	801,099	796,968

11. TRADE AND NOTES RECEIVABLES

	Group	
	2011	2010
	RMB'000	*RMB'000*
Trade receivables	209,467	236,904
Impairment	(1,017)	(4,161)
	208,450	232,743
Notes receivable	234,539	266,752
	442,989	499,495

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 credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to manage 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.

11. TRADE AND NOTES RECEIVABLES (continued)

An aged analysis of the trade receivables and notes receivables as at the end of the reporting period, net of provisions, is as follows:

	Group	
	2011	2010
	RMB'000	*RMB'000*
Trade receivables		
Outstanding balances with ages:		
Within 90 days	195,422	220,780
Between 91 and 180 days	12,528	11,921
Between 181 and 270 days	492	23
Between 271 and 360 days	-	8
Over one year	8	11
	208,450	232,743

	Group	
	2011	2010
	RMB'000	*RMB'000*
Notes receivable		
Outstanding balances with ages:		
Within 90 days	37,782	201,730
Between 91 and 180 days	196,757	65,022
	234,539	266,752

Notes receivables amounting to RMB20,000,000 were pledged to secure a bank loan.

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

	Group	
	2011	2010
	RMB'000	*RMB'000*
At 1 January	4,161	5,232
Impairment losses recognised	2	-
Amount written off as uncollectible	(2,921)	(917)
Impairment losses reversed	(225)	(154)
At 31 December	1,017	4,161

The above provision for impairment of trade receivables is provided for individually impaired trade receivables with an aggregate carrying amount before provision of RMB1,017,000 (2010: RMB4,161,000). 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.

11. TRADE AND NOTES RECEIVABLES (continued)

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

	Group	
	2011	2010
	RMB'000	*RMB'000*
Neither past due nor impaired	195,422	220,780
Less than three months past due	12,528	11,921
Over three months past due	500	42
	208,450	232,743

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 Group 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.

12. TRADE AND NOTES PAYABLES

An aged analysis of the trade payables and notes payables as at the end of the reporting period is as follows:

	Group	
	2011	2010
	RMB'000	*RMB'000*
Outstanding balances with ages:		
Within 90 days	72,695	263,360
Between 91 and 180 days	193,112	159,562
Between 181 and 270 days	2,596	3,056
Between 271 and 360 days	140	215
Over one year	669	851
	269,212	427,044

The 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.

CHAIRMAN'S STATEMENT

RESULTS

The Group has recorded a revenue of approximately RMB1,081,044,000 for the year ended 31 December 2011(2010: RMB1,286,683,000), representing a decrease of 16.0% over 2010. Profit attributable to owners of the parent was approximately RMB146,307,000 (2010: RMB166,840,000), representing a decrease of 12.3% over 2010. The decrease in revenue was mainly due to the decrease in sales of intermediates, bulk medicines and powder for injection compared with the corresponding period last year. The sales of solid dosage-forms (mainly system specific medicines) increased compared with the corresponding period last year.

With the Company's success in implementing various plans under its development strategies, the Group recorded impressive return on its investments in system specific medicines for cardiovascular diseases, etc. Market share has become bigger and sales continued to post considerable growth while gross margins maintained at a satisfactory level. The increasingly strong product structure of the Group's system specific medicines warrants the profitability of the Company and has partially offset the effect of the declining revenue from cephalosporin products. Besides, the Group adheres to its business policy of healthy development and its financial principle of strict cost control. Cash flows from operating activities for 2011 were RMB82,986,000 (2010: RMB252,344,000).

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK$0.068 per share for the year ended 31 December 2011, amounting to the total sum of approximately HK$54,303,700 (equivalent to approximately RMB44,127,000), to the shareholders whose names appeared in the register of members as of Friday, 25 May 2012 subject to the approval of the shareholders at the forthcoming 2012 Annual General Meeting (the "2012 AGM"). Taking into consideration the interim dividend of HK$0.02 per share, the total annual dividend distributed for the year is HK$0.088per share. The dividend payout ratio is approximately 39.1%.

OVERVIEW OF 2011

2011 marks the third year into the in-depth medical reforms pushed forward by the Central Government and is also under the "12th Five-Year Development Plan". During the year, the government introduced a number of substantial policies, plans, guidance and measures in connection with the pharmaceutical industry. As regards the policies which might have immediate effect on the pharmaceutical industry, in addition to the 2 notices issued by the National Development and Reform Commission concerning adjustment to the retail price of pharmaceuticals, the stringent requirements stipulated in both the "Good Manufacturing Practice of Pharmaceuticals (revised in 2010)(《藥品生產品質管理規範(2010 年修訂)》)" ("New GMP") promulgated by the State Food and Drug Administration and the "Administrative Measures regarding Clinical Application of Antibacterial Medicines (Consultation Paper)(《抗菌藥物臨床應用管理辦法(徵求意見稿)》)" issued by the Ministry of Health also have a bearing on the pharmaceutical industry to some extent.

The New GMP is prepared with direct reference to the standards adopted by the European Union, assuring quality of pharmaceuticals manufactured by the Chinese pharmaceutical enterprises and maintaining their competitiveness in the international arena by imposing significantly high entry barriers and production standards. Upon implementation of the New GMP, enterprises must commit considerable amount of financial and human resources to construction or improvement in terms of facilities and management to meet the requirements within the given timeframe. Under such circumstances, some pharmaceutical enterprises may fall prey to merger and acquisition or even elimination. In the near future, pharmaceutical enterprises in China will keep up with their international counterparts in terms of size, management standards and production quality. Competition among top-tier players in China will center around innovation, proprietary technology and quality and go beyond the domestic market to the rest of the world. As a visionary move, the Group took the lead to construct new production facilities and renovate its existing facilities referring to the advanced standards commonly accepted worldwide years back. Projects commenced as scheduled. When it is done, the Group's production conditions and strengths will move onto a new stage. By then the Group will be in an advantageous position to expand its presence in the domestic market as well as explore different tiers of the overseas markets.

All along, antibiotic has been a key medicine of clinical application in China. The multi-tier management proposed in the "Administrative Measures regarding Clinical Application of Antibacterial Medicines (Consultation Paper)" has for a time sent shockwaves across the market. The strong reactions from dealers and end-users triggered a decline in the antibiotics market across the nation in 2011. The cephalosporin products segment of the Company was not spared with its business volume falling from the peak level seen in 2010. The Group believes that China is promoting the rational use of antibiotics and will, in the foreseeable future, only adjust its administrative measures based on the time-honored clinical applications. A set of finalized administrative measures is imminent. Therefore, the Company has been actively exploring various solutions on the premise of constrained resource commitment to realize its development potential from the aspects of product quality and production costs, and to enhance brand name and competitive edges of our products.

Since the founding of the Company, on top of cephalosporin products, the Group has also marketed a range of system specific medicines with a success which is attributed to its ability to meet the requirements of end-users, timely development and precise marketing initiatives. Thanks to our efforts over the years, the launched products, namely "Anneizhen" (安內真) and "Anneiqiang"(安內強) for treating cardiovascular diseases as well as anti-allergy medicine "Xikewei"(西可韋), on the market prove marketable and record year-on-year growth in sales. During the year under review, the revenue of specific medicines took up a bigger proportion in the total revenue of the Group and also made substantial profit contribution to the Group. Shortly after the launch of "Entecavir" (恩替卡韋) for treating liver diseases in 2010, marketing activities for another medicine, namely "Potassium Citrate Extended-release Tablets" (枸櫞酸鉀緩釋片)for treating endocrine calculus, also commenced in 2011. Through a series of marketing activities, the Company expects these 2 products will bring in positive contribution to the Group's profitability.

PROSPECTS

Judging from the particulars of the national "12th Five-Year Development Plan" and the ancillary policies relating to pharmaceutical industry, the government is determined to speed up the restructuring and intensification of the pharmaceutical industry and to enhance the management, production and product quality and safety of this industry, thereby ensuring an effective supply of medicines in the domestic market and sharpening the competitive edge of China's top-tier pharmaceutical enterprises in the international markets. Given the current circumstances, the Group will continue to reinforce its capabilities in innovation and spare no efforts in product development, technological research, technological transformation and quality assurance to take on the challenges lying ahead.

As regards R & D of products, in particular, system specific medicines, the Company has accumulated a wealth of experience in terms of product development, cultivation, screening and marketing after prolonged practice and repeated reviews. Therefore, the Group will increase and accelerate its resource commitments and keep track and control of the product development progress from cultivation to launch. Under the guidance of the "12th Five-Year Development Plan of the Pharmaceutical Industry (醫藥工業"十二五"發展規劃)", the Group will build up a new portfolio of system specific medicines and a network of sales and marketing, increasing the proportion of system specific medicines in the total business volume to enhance the Company's profitability and sustainability.

Besides, leveraging on the Group's experience in producing cephalosporin products through vertical integration over the years, technical advantages and market position, the Company will enhance mutual or multilateral cooperation in various ways with its existing and new allies, both at home and abroad, ensuring the cephalosporin product segment to maintain basic contribution to the Company's profitability.

The Group will complete the construction of new facilities and the improvement to existing workshops at full strength so as to comply with the New GMP requirements on schedule.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During 2011, as the reform of the medical and health system deepened in China, changes have been made to the essential drug system across the entire nation by the introduction of tendering process to drive down the prices of medicines. The tendering prices for, in particular, the widely-used cephalosporin powder for injection listed in the essential drug list are reduced to even below their costs. The Ministry of Health in China has adopted the most stringent restrictions and regulations on the clinical application of antibiotics since the introduction of "2011 rectification program for national clinical application of antibacterial medicine (《2011 年全國抗菌藥物臨床應用專項整治活動方案》)". As a result, clinical application of such medicine significantly decreased and so did the demand from the market as a whole. Arbitrary investments and massive production had resulted in an oversupply of the upstream raw material "7-ACA"in the market and persistent reduction in its price. These 3 factors have brought down the sales volume and gross margins of the products related to cephalosporin intermediates, bulk medicines and powder for injection and in turn setting a downward trend for the selling price of the Group's cephalosporin bulk medicines.

Under the unexpectedly severe market conditions for cephalosporin antibiotics, coupled with other adverse external factors, the Group focused on increasing the production and sales of specific medicines, consolidating and expanding its market share in system specific medicines and so enhancing profitability. We have also concentrated investment in R & D capabilities and selected products with core technology and innovation to form a new product line.

1) **Production & Sales Operation**

For the year ended 31 December 2011, production and sales volume of intermediates and bulk medicines decreased by 25.3% and 32.7% respectively over the corresponding period last year. As to finished drugs, production and sales volume of powder for injection decreased by 17.1% and 28.6% respectively over the corresponding period last year while those of solid-dosage-forms increased by 61.9% and 37.8% respectively. Export sales accounted for approximately 16.3% of the total revenue.

2) **Development of New Products**

In 2011, the Group has obtained from the State Food and Drug Administration (SFDA) 1 new drug certificate for Potassium Citrate Extended-release Tablets; and 4 production approvals, 2 for cephalosporin antibiotics (Cefprozil Tablets and Cefodizime Sodium for Injection) and 2 for specific medicines (Levamlodipine Besylate Tablets and Potassium Citrate Extended-release Tablets). We have completed clinical studies for 3 types of medicine, 2 for specific medicines treating cardio-cerebrovascular diseases and 1 for oral cephalosporin antibiotic. Proposals for 2 new products were approved and 1 patent was granted. On-site inspection by the Certification Centre for Drugs under SFDA in respect of the registration and production of Prulifloxacin and its tablet form was completed.

3) **Honourable Recognitions in 2011**

The Group's Entecavir dispersible tablet and its bulk medicines were recognized as a high-tech product of Jiangsu Province by Jiangsu Science and Technology Department in 2011. Cefepime Dihydrochloride for injection and its bulk medicine were recognized by the Ministry of Science and Technology as an item under the China Torch Programme in 2011. The ergot-type drugs for treating cardio-cerebrovascular diseases which are still under development were granted patents by the State Intellectual Property Office.

Suzhou Dawnrays Pharmaceutical Co., Ltd. was recognized "Innovative Enterprise of Jiangsu Province" jointly by Jiangsu Science and Technology Department, State-owned Assets Supervision and Administration Commission of Jiangsu Provincial Government, Jiangsu Federation of Trade Unions and Jiangsu Federation of Industry and Commerce.

“Suzhou Dawnrays Pharmaceutical Engineering Research Centre for Cephalosporin Antibiotics and Cardiovascular Drugs” set up by Suzhou Dawnrays Pharmaceutical Co., Ltd. was certified by the Science and Technology Department of Suzhou.

“Nantong Research Centre for Engineering and Technology” of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. obtained certification from the Science and Technology Department of Nantong.

According to the information released at the 28th National Pharmaceutical Industry Information Annual Conference held in August 2011, Suzhou Dawnrays Pharmaceutical Co., Ltd. ranked 83rd among the pharmaceutical enterprises nationwide as listed in the “2010 Statistics Yearbook of Chinese Medicine and Pharmacy”.

In September 2011, the high-tech enterprise status of Suzhou Dawnrays Pharmaceutical Co., Ltd. was verified by the authorities in Jiangsu Province.

In December 2011, Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. was named an outstanding overseas Chinese enterprise in Jiangsu Province.

4) Construction Project of Production Facilities

Pharmaceutical Intermediates:

Phase II of the construction project of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. has been progressing as planned.

Pharmaceutical Preparations:

Fundamental construction of the workshop producing non-cephalosporin solid-dosage-forms of Suzhou Dawnrays Pharmaceutical Co., Ltd. at Hedong Industrial Park has been completed and is entering the phase of equipment installation and commissioning.

OUTLOOK

Since 2010, the huge population base in China, rising national income, aging population, urbanization, improvement in social security system and so on have become the driving force behind the rapid development of the pharmaceutical industry. The pharmaceutical industry of China is moving towards another decade of significant developments. We may witness the introduction by the Chinese authorities of various policies to optimize the medical resources. By committing more resources and perfecting the system, the coverage and popularity of medical service will be enhanced and a rapid growth will also be seen in China's pharmaceutical market. With the Company's strategic objective in mind, the management of Dawnrays will ride on the general trend of the nation's industrial development. Optimization of resource allocation will be materialized by leveraging on the strengths of the capital markets. Management standard and operating efficiency will also be raised so as to strengthen risk management and keep the Company on the right track of healthy development. In achieving these goals, we are committed to: 1) putting more efforts to R&D, optimizing resource allocation, and expediting the launching process of products under development to enrich our array of specific medicines encompassing various areas; 2)obtaining GMP certification for newly-built workshops as planned, implementing the construction of new facilities and manufacturing bases as well as application for international recognition in an orderly fashion so as to raise the standard of product quality and competitiveness in the market; 3) adjusting and optimizing product mix according to government policies and market demand as well as developing markets for new products and structuring the sales team as planned; and 4)further lowering cost while enhancing product quality of our existing cephalosporin products and even exploring opportunities to cooperate with enterprises at home and abroad to ensure the product line maintains profit contribution.

FINANCIAL REVIEW

SALES AND GROSS PROFIT

For the year ended 31 December 2011, the Group has achieved the revenue of approximately RMB1,081,044,000, equivalent to a decrease of 16.0% compared with the corresponding period of last year. Gross profit was approximately RMB362,752,000, in a decrease of RMB13,405,000 and equivalent to a decrease of 3.6% compared with the corresponding period of last year. Gross profit margin rose from 29.2% in last year to 33.6%, increased by 4.4 percentage points and equivalent to an increase of 15.1%. The main reason for the decrease in revenue by RMB205,639,000 was mainly due to the revenue for finished drugs segment increased by RMB50,947,000 while the revenue of intermediates and bulk medicines segment decreased by RMB256,586,000. The sales amount of the system specific medicines under finished drugs segment increased by RMB120,798,000 representing an increase of 60.6% compared with the corresponding period of last year. The increase in gross profit margin was mainly due to the product portfolio was further optimized and the sales of high gross profit system specific medicines continued steady growth with the sales volume rose by 42.8%.

Table of Turnover Analysis

Product	Turnover (RMB' 000)			Sales Breakdown(%)		
	2011	**2010**	**changes**	**2011**	**2010**	**changes**
Intermediates and Bulk Medicines	**556,829**	**813,415**	**-256,586**	**51.51**	**63.22**	**-11.71**
Finished Drugs	**524,215**	**473,268**	**50,947**	**48.49**	**36.78**	**11.71**
Overall	**1,081,044**	**1,286,683**	**-205,639**	**100.0**	**100.0**	**0**

EXPENSES

The total expenses incurred during the year increased by RMB23,743,000 making total of RMB200,166,000 compared with RMB176,423,000 in the corresponding period of last year. They were equivalent to 18.5% of turnover (2010: 13.7%). Total expenses increased were mainly due to the increase in employees' remuneration, R & D costs, write-down of inventories to net realizable value and marketing expenditure.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

For the year ended 31 December 2011, profit attributable to owners of the parent was RMB146,307,000, a decrease of RMB20,533,000 or 12.3% compared with the corresponding period of last year. Profit decreased mainly due to hospitals had strict control in the usage of antibiotics since the 3rd quarter of 2011 and the selling price of 7ACA continued to slide caused double extrusion to the sales volume and unit price of cephalosporin.

ANALYSIS ON THE RETURN ON ASSETS

As at 31 December 2011, net assets attributable to owners of the parent were approximately RMB918,878,000. Net return on net assets, which is defined as the profit attributable to owners of the parent for the year divided by net assets attributable to owners of the parent, was 15.9% (2010: 20.0%). The current ratio and quick ratio was 1.80 and 1.41 respectively. Turnover days for trade receivables was approximately 74 days. Turnover days for trade and notes receivables was approximately 157 days. The turnover days for inventory was approximately 90 days.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group held cash and cash equivalents of approximately RMB97,805,000(as at 31 December 2010: RMB210,975,000). During the year, the net cash flows from operating activities was approximately RMB82,986,000(2010: RMB252,344,000). Net cash flows used in investing activities was approximately RMB149,258,000 (2010: RMB79,357,000). Net cash flows used in financing activities was approximately RMB41,114,000 (2010: RMB46,379,000).

As at 31 December 2011, the debt ratio (defined as sum of bank advances for discounted bills plus interest-bearing bank loans over total assets) of the Group was 7.9% (as at 31 December 2010: 3.6%). As at 31 December 2011, the Group had HK$136,180,000 short term bank loans which were interest-bearing. The time deposits of approximately RMB88,294,000 were pledged to a bank to secure HK$105,000,000 bank loans. Another bank loan of HK$23,180,000 is secured by notes receivables amounting RMB20,000,000 of the Group's subsidiary in China. The Group's remaining bank loans are guaranteed by corporate guarantee of the Company and some of its subsidiaries. The fixed bank deposits carry interest at market rate. In order to convert the floating rate bank loans to a fixed annual interest rate, the Group entered into an interest rate swap contracts with a notional amount of HK$105,000,000 with a bank. The purpose is to execute the Group's financial management requirement to exclude any risk of interest rate fluctuations of floating interest rate loans for achieving the planned financial results.

As at 31 December 2011, the Group had aggregate bank facilities of approximately RMB852,458,000 (as at 31 December 2010: RMB827,012,000).

As at 31 December 2011, the Group's capital commitments amounted to approximately RMB199,160,000 (as at 31 December 2010: RMB273,680,000), which mainly derived from the purchase plan of office premises, construction of new workshops for specific medicines solid-dosage-forms preparation in Hedong Industrial Park in Suzhou Dawnrays Pharmaceutical Co., Ltd., the phase II of plant construction in Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd., the construction works for oral cephalosporin intermediates workshop in Su Zhou Dawnrays Pharmaceutical Science and Technology Co. Ltd, etc. The Group has sufficient financial and internal resources to bear the capital expenditure.

Save as aforesaid disclosure, the Group had no significant external investments or material acquisitions or disposal of subsidiaries and associated companies during the year.

FOREIGN EXCHANGE AND TREASURY POLICIES

As the Group's substantial business activities, assets and liabilities are denominated in Renminbi, the risk derived from the foreign exchange to the Group is not high. The treasury policy of the Group is to manage any risk of foreign exchange or interest rate (if any) only if it will potentially impose a significant impact on the Group. The Group continues to observe the foreign exchange and interest rate market, and may hedge against foreign currency risk with foreign exchange forward contracts and interest rate risk with interest rate swap contracts if necessary.

STAFF AND REMUNERATION POLICY

As at 31 December 2011, the Group employed 1,434 employees and the total remuneration was approximately RMB100,635,000 (2010: RMB89,758,000). The Group regards human resources as the most valuable assets and truly understands the importance of attracting and retaining high-performance employees. The remuneration policy is generally based on the references of market salary index and individual qualifications. The Group provides its employees with other fringe benefits, including defined contribution retirement schemes, share option scheme and medical coverage. The Group also offers some of its employees stationed in the PRC with dormitory accommodation.

CHARGE ON ASSETS

Save for the bank deposits and notes receivables of approximately RMB108,294,000 which were pledged to banks to secure bank loans of HK$128,180,000, as at 31 December 2011, the Group had no charges on assets (as at 31 December 2010: Nil).

CONTINGENT LIABILITIES

As at 31 December 2011, the Group had no material contingent liabilities (as at 31 December 2010: Nil).

PLANS FOR SIGNIFICANT INVESTMENTS AND EXPECTED SOURCE OF FUNDING

Save for those disclosed above in connection with capital commitments under the section "Liquidity and Financial Resources", the Group does not have any plan for material investments or acquisition of capital assets.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

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 (the "Listing Rules") for the year ended 31 December 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry of all Directors, the 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 2011 annual report.

AUDIT COMMITTEE

The audited financial statements of the Company for the year ended 31 December 2011 have been reviewed by the Audit Committee before recommending it to the Board for approval.

DIVIDEND AND CLOSURE OF REGISTER

The Board has resolved to recommend the payment of a final dividend of HK$0.068 per share payable to shareholders whose names appear in the Register of Members of the Company on Friday, 25 May 2012. The proposed final dividend of HK$0.068 per share, the payment of which is subject to approval of the shareholders at the 2012 AGM of the Company to be held on Friday, 18 May 2012, is to be payable on Tuesday, 5 June 2012 to shareholders.

The register of members of the Company will be closed during the following periods:

(i) from Wednesday, 16 May 2012 to Friday, 18 May 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2012 AGM. In order to be eligible to attend and vote at the 2012 AGM, all transfer 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 for registration not later than 4:00 p.m. on Tuesday,15 May 2012; and

(ii) from Thursday, 24 May 2012 to Friday, 25 May 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer 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 for registration not later than 4:00 p.m. on Wednesday, 23 May 2012.

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfers of shares will be registered.

APPRECIATION

As always, the Board believes that the building and operation of pharmaceutical enterprises relies on a knowledge-intensive base and its success depends on the quality, effective allocation and application of its human resources. We will continue to emphasize the nurture of key staff and recruit talents from outside, laying a solid foundation for the development of the Group.

I would like to take this opportunity to express my sincere gratitude to all our shareholders, business associates, management staff and colleagues for their full support throughout the year.

By Order of the Board
Li Kei Ling
Chairman

Hong Kong, 23 March 2012

As at the date of this announcement, the Board comprises eight Directors, of which four are Executive Directors, namely Ms. Li Kei Ling, Mr. Hung Yung Lai, Mr. Li Tung Ming and Mr. Gao Yi; one is Non-executive Director, Mr. Leung Hong Man; three are Independent Non-executive Directors, namely Mr. Pan Xue Tian, Mr. Choi Tat Ying Jacky and Mr. Lo Tung Sing Tony.