

Report of the Directors

The board of directors (the "Board") herein present their report and the audited financial statements of Dawnrays Pharmaceutical (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 19 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the audited financial statements on pages 27 to 62.

An interim dividend of HK\$0.015 per ordinary share was paid on 8 October 2004. The Board recommends the payment of a final dividend of HK\$0.023 per ordinary share in respect of the year, to shareholders on the register of members on 15 April 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and Accountants' Report included in the Prospectus of the Company dated 30 June 2003 and reclassified as appropriate, is set out on pages 63 to 64. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

Details of movements in property, plant and equipment and land use rights of the Company and the Group during the year are set out in notes 15 and 16 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year. Details of movements in the Company's share options during the year are set out in note 28 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of associations or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in statement of changes in equity and note 29 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserves available for distribution amounted to RMB199,053,000, of which RMB19,543,000 has been proposed as a final dividend for the year. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company of approximately RMB69,583,000 as at 31 December 2004 are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 27% of the total sales for the year and sales to the largest customer included therein amounted to 11%. Purchases from the Group's five largest suppliers accounted for 60% of the total purchases for the year and purchases from the largest supplier included therein amounted to 42%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

Report of the Directors

DIRECTORS

The directors of the Company during the year were:

EXECUTIVE DIRECTORS

Ms. Li Kei Ling

Mr. Hung Yung Lai

Mr. Zhang Jing Xing

Mr. Lam Kam Wah

Mr. Li Tung Ming (appointed on 14 January 2004)

Mr. Xu Kehan (appointed on 17 March 2004)

NON-EXECUTIVE DIRECTOR

Mr. Sik Siu Kwan Gary (resigned on 13 January 2004)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Pan Xue Tian

Mr. Lee Cheuk Yin Dannis

Mr. Choi Tat Ying Jacky (appointed on 30 September 2004)

In accordance with the article 87 of the Company's articles of association, Mr. Hung Yung Lai and Mr. Lam Kam Wah will retire by rotation. However, only Mr. Hung Yung Lai will offer himself for re-election at the forthcoming annual general meeting ("AGM") whilst Mr. Lam Kam Wah will not offer himself for re-election. As Mr. Choi Tat Ying Jacky was appointed by the Board as an additional director after the AGM held on 29 April 2004, he will retire from office at the forthcoming AGM, and, being eligible, offer himself for re-election. Ms. Li Kei Ling, the Chairman, will also retire from office and offer herself for re-election in view of the provisions in paragraph A.4.2 of the new Appendix 14 of the Listing Rules, which came into effect on 1 January 2005.

The Company has received annual confirmations of independence from Mr. Pan Xue Tian, Mr. Lee Cheuk Yin Dannis and Mr. Choi Tat Ying Jacky, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 17 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Ms. Li Kei Ling, Mr. Hung Yung Lai and Mr. Lam Kam Wah have each entered into a service contract with the Company for a term of two years which commenced on 1 July 2003 and will continue thereafter until terminated by either party giving not less than three months' written notice. Each of the above three executive directors is entitled to a basic salary which will be reviewed at the discretion of the Board after she or he has completed 12 months of service. The current basic annual salary of each of Ms. Li Kei Ling, Mr. Hung Yung Lai and Mr. Lam Kam Wah amounts to approximately HK\$360,000, HK\$360,000 and HK\$646,000, respectively.

Mr. Zhang Jing Xing has entered into a service contract with the Company for a term of two years which commenced on 1 July 2003 and is subject to termination by either party giving not less than three months' written notice. On 1 August 2004, Mr. Zhang's service contract was revised to a term of three years which commenced on 1 August 2004 and is subject to termination by the Company giving not less than one month's written notice. Mr. Zhang is entitled to a basic annual salary of approximately HK\$880,000 which will be reviewed at the discretion of the Board after he has completed 12 months of service.

Mr. Li Tung Ming has entered into a service contract with the Company for a term of two years which commenced on 14 January 2004 and will continue thereafter until terminated by either party giving not less than three months' written notice. Mr. Li is entitled to a basic annual salary of HK\$360,000 which will be reviewed at the discretion of the Board after he has completed 12 months of service.

Mr. Xu Kehan has entered into a service contract with the Company for a term of three years which commenced on 17 March 2004 and is subject to termination by the Company giving not less than one month's written notice. Mr. Xu is entitled to a basic annual salary of HK\$504,000 which will be reviewed at the discretion of the Board after he has completed 12 months of service.

Mr. Pan Xue Tian and Mr. Lee Cheuk Yin Dannis have been appointed as an independent non-executive director for the period commencing on 1 July 2003 and 25 November 2003, respectively, to 30 June 2005. Mr. Choi Tat Ying Jacky has been appointed as an independent non-executive director for a term of two years which commenced on 30 September 2004 and is subject to termination by either party giving not less than one month written notice. Each of Mr. Pan, Mr. Lee and Mr. Choi are currently entitled to an annual remuneration of HK\$72,000. Save for the above directors' fees, the three independent non-executive directors are not entitled to any other remuneration.

No director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group. There is no contract of significance between the Group, its controlling shareholder or any of its subsidiaries during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the interests and short positions of the directors and chief executive in the shares or underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

Name	Notes	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through controlled corporation		
Directors					
Ms. Li Kei Ling	(a)	—	342,072,000	342,072,000	42.76
Mr. Hung Yung Lai	(a)	—	342,072,000	342,072,000	42.76
Mr. Zhang Jing Xing	(b)	—	154,000,000	154,000,000	19.25
Mr. Li Tung Ming	(c)	2,360,000	56,000,000	58,360,000	7.30
Mr. Xu Kehan		120,000	—	120,000	0.02
Chief Executive					
Mr. Dong Shao Zhi		1,000,000	—	1,000,000	0.13

The interests of the directors and chief executive in the share options of the Company are separately disclosed in note 28 to the financial statements.

Long positions in shares and underlying shares of associated corporation:

Name of director	Name of associated corporation	Relationship with the Company	Shares	Number of shares	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Ms. Li Kei Ling	Fortune United Group Limited	Company's holding company	Ordinary shares	2	Through a controlled corporation	50
Mr. Hung Yung Lai	Fortune United Group Limited	Company's holding company	Ordinary shares	2	Through a controlled corporation	50

Notes:

- (a) 342,072,000 shares are held by Fortune United Group Limited, a company incorporated in the British Virgin Islands. Keysmart Enterprises Limited, which is wholly-owned by Ms. Li Kei Ling, and Hunwick International Limited, which is wholly-owned by Mr. Hung Yung Lai, are each beneficially interested in 50% of the share capital of Fortune United Group Limited.
- (b) 154,000,000 shares are held by Ray Sheen Company Limited, a company incorporated in the British Virgin Islands. The entire issued share capital of Ray Sheen Company Limited is beneficially owned by Mr. Zhang Jing Xing.
- (c) 56,000,000 shares are held by Time Lead Investments Limited, a company incorporated in the British Virgin Islands. The entire issued share capital of Time Lead Investments Limited is beneficially owned by Mr. Li Tung Ming.

Save as disclosed above, as at 31 December 2004, none of the directors or chief executive had registered an interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 28 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The detailed disclosures relating to the Company's share option schemes are set out in note 28 to the financial statements.

Concerning the share options granted during the year to the directors and employees, as detailed in note 28, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because, in the absence of a market value of the share options over the ordinary shares of the Company, the directors were unable to arrive at an assessment of the value of these share options.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the following interests or short positions in the shares and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of share options held
Fortune United Group Limited	(a)	Directly beneficially owned	342,072,000	42.76	—
Keysmart Enterprises Limited	(a)	Through a controlled corporation	342,072,000	42.76	—
Hunwick International Limited	(a)	Through a controlled corporation	342,072,000	42.76	—
Mdm. Lu Pun	(b)	Family	342,072,000	42.76	700,000
Ray Sheen Company Limited	(c)	Directly beneficially owned	154,000,000	19.25	—
Mdm. Luo Yang	(d)	Family	154,000,000	19.25	1,500,000
Time Lead Investments Limited	(e)	Directly beneficially owned	56,000,000	7.00	—

Notes:

- The issued capital of Fortune United Group Limited is equally beneficially owned by Keysmart Enterprises Limited and Hunwick International Limited which are in turn, respectively, wholly-owned by Ms. Li Kei Ling and Mr. Hung Yung Lai, executive directors of the Company.
- Mdm. Lu Pun is the wife of Mr. Hung Yung Lai and is deemed to be interested in the shares and share options of the Company held by Mr. Hung Yung Lai. The interests of Mdm. Lu Pun in the shares options of the Company as referred to above are the same as those interested by Mr. Hung Yung Lai, details of which are separately disclosed in note 28 to the financial statements.
- The entire issued capital of Ray Sheen Company Limited is beneficially owned by Mr. Zhang Jing Xing, an executive director of the Company.
- Mdm. Luo Yang is the wife of Mr. Zhang Jing Xing and is deemed to be interested in the shares and share options of the Company held by Mr. Zhang Jing Xing. The interests of Mdm. Luo Yang in the shares options of the Company as referred to above are the same as those interested by Mr. Zhang Jing Xing, details of which are separately disclosed in note 28 to the financial statements.
- The entire issued capital of Time Lead Investments Limited is beneficially owned by Mr. Li Tung Ming, an executive director of the Company.

Save as disclosed above, as at 31 December 2004, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 33 to the financial statements.

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 for the year ended 31 December 2004.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules ("Model Code") as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the annual report.

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.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

Li Kei Ling

Chairman

Hong Kong, 7 March 2005