

# Incite Innovate Improve

ANNUAL REPORT 2008



## CONTENTS

Letter to Shareholders • 6

Financial Highlights • 10

Operation Review • 14

Financial Performance • 55

Affiliates • 72

Global Network • 74

Investor Information • 74

# Incite

Dong-A stands at the top of Korea's pharmaceutical industry. Now, we are determined to take on the world. Our people are the cream of the crop; our research prowess is unmatched; our strategies are focused on the future. Dong-A has mobilized all its resources for the tasks ahead, and we will deliver on our promise to create lasting value for all our stakeholders.

Founded in 1932, Dong-A is the No.1 pharmaceutical company in Korea, a position we have firmly held since 1967. We develop and market a wide range of health products for domestic and foreign markets. Our long-term goal is to become a respected world-class pharmaceutical company known for creating innovative medicines that improve people's lives.

# Innovate

## 76 years of innovation:

Since our foundation in 1932, the spirit of innovation has been the key to our success. The challenges that incite our people are the beginnings of Dong-A's innovation.

## 2008 – a pivotal year:

With an active R&D program and a promising pipeline drugs, Dong-A is setting the industry standard for innovation. We have the strength to incite our people to aim higher, try harder and surge ahead.



**1932**  
Founded as a pharmaceutical and hygiene material wholesaler by Choong - Hee Kang

**1949**  
Name changed to Dong-A Pharmaceutical Corporation

**1967**  
Ranked 1st in sales among domestic pharmaceutical companies

**1970**  
Conducts initial public offering (IPO)

**1977**  
Establishes Research Center

**1985**  
Certified as a KGMP-compliant facility

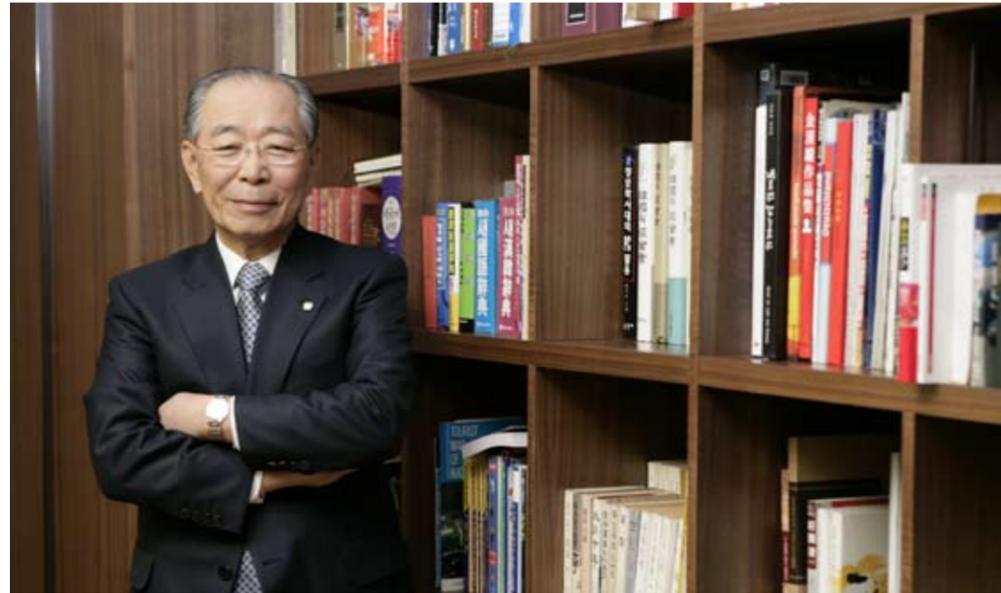
**1994**  
Develops dual diagnostic drug for AIDS and hepatitis C

**2002**  
Obtains marketing authorization of Stillen®, a new phyto-medicine for gastritis

**2005**  
Launches Zyderna®, world's 4th PDE-5 inhibitor, an erectile dysfunction treatment

**2008**  
Successfully completes the first year of 'Global Dong-A'  
-  
Sales exceed KRW 700 billion, a first in the domestic pharmaceutical industry  
-  
Signs export contracts for Zyderna® with 30 countries

2008 marked the successful completion of the first year of 'Global Dong-A'. We are now moving forward into the global market to deliver more powerful, affordable and accessible innovation than ever before.



**Dear customers and shareholders,  
I would like to extend to you my sincere thanks for your unwavering support and encouragement throughout the past year.**

I find myself in the satisfying position of reporting that 2008 was an excellent year for Dong-A. Net sales for 2008 exceeded KRW 700 billion, a historic first in Korea's pharmaceutical industry. Our in-house developed gastritis drug Stillen<sup>®</sup> led the way, bringing in KRW 75 billion. Zydena<sup>®</sup>, which set a record in 2006 for first-year sales of a new drug, has gone on to become the nation's No.2 erectile dysfunction therapy. It gathered KRW 14 billion in revenues in 2008, and recorded its first shipment to Russia.

Our company was not unaffected by the increasingly negative operating environment, however. The global financial crisis has made financing harder to arrange, and plunging foreign exchange rates have eaten into our profits. The Korean government continues to intervene in the market with drug price restrictions, and the level of competition grows ever fiercer. Dong-A dealt successfully with these challenges, solidifying its position at the head of the domestic industry. We developed new in-house drugs to serve as future growth drivers, and expanded our overseas bases. Crisis breeds opportunity, and we are determined to break into new markets and push forward with our company's globalization strategy.

Dong-A's future rests on our ability to adopt world-class standards of performance and innovation. R&D investments have been increasing steadily over the years, and we work hard on marketing to establish premium brands that meet the needs of global customers. Earning the public trust is essential for supporting those brands. Stringent corporate governance systems have been set in place to ensure that Dong-A's stakeholders can continue to rely on our corporate integrity. Through promoting transparency and CSR(Corporate Social Responsibility) programs, Dong-A shall strengthen spirit of trust and companionship hand in hand with our staff, management, business partners and investors.

Looking forward to 2009, I am excited by the opportunities that lie ahead. While we are mindful of the headwinds posed by the coming Korea-US Free Trade Agreement and government price controls, we believe that the outlook is overall positive. As our guidepost, we have unveiled the company's 'Vision 2012'. It embodies Dong-A's determination to grow into a world-class company that is recognized as a producer of top-quality medicines. 'Vision 2012' also lays out the practical steps we will take to realize our ultimate dream of 'Global Dong-A':

**First, we will lengthen our lead over competitors in terms of sales and operating income.**

For forty years, Dong-A has been cementing its position at the forefront of Korea's pharmaceutical industry. To deal with ever-increasing competition, we will adopt the 'Select & Focus' strategy. This means focusing on the development of high value-added drugs with wide market appeal and solid growth prospects. We will also maximize the ROI of our marketing expenditures, tailoring our services to the specific needs of individual customers. Our goal is to widen the gap over the No.2 player, achieving a 50 percent lead in sales by 2012.

**Second, we will establish world-class R&D infrastructure and raise our global competitiveness.**

There is a natural limit to the growth that can be obtained in one's home market. Dong-A is therefore steadily expanding its overseas presence, identifying and exploiting new growth engines. To seize global opportunities, our research labs will meet global standards for drug development, and we will establish systems to ensure rapid approval of new drugs in local markets. The successful launch of new products will be supported with sufficient resources to build dominant market share. As a core element of our global strategy, Dong-A is proactively seeking out strategic foreign partners with whom to form win-win relationships.

**Third, while emphasizing strong fundamentals and ethical management,  
Dong-A will act as a responsible corporate citizen that creates positive benefits for society.**

To meet the demands of stakeholders for greater transparency, stable returns and consistent strategy, Dong-A is instilling in its staff a respect for business fundamentals and a commitment to ethical management. In practice, this means ever-improving transparency and more frequent communication with stakeholders. It also means continuing support for social programs and generous corporate giving. As the No.1 pharmaceutical company in Korea, we believe it is our duty to continue setting an example for the domestic industry.

Dong-A will never stop striving to become more competitive at home and abroad. Our company has long experience in meeting challenges with creativity and enthusiasm, and we will succeed in creating value for our shareholders and customers. I ask for your continuing support and encouragement as Dong-A continues on its path of growth and bringing health to humankind.

Thank you.



Shin-Ho Kang  
Chairman, Dong-A Socio Group

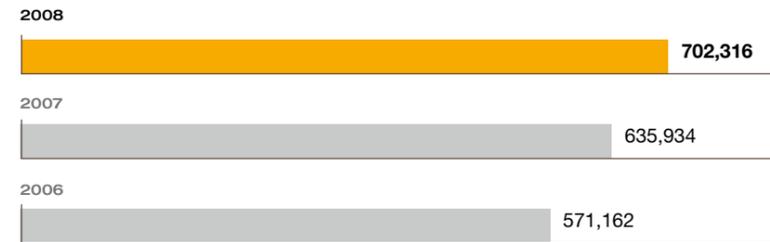


Won-Bae Kim  
CEO, Dong-A Pharmaceutical

## Financial Highlights

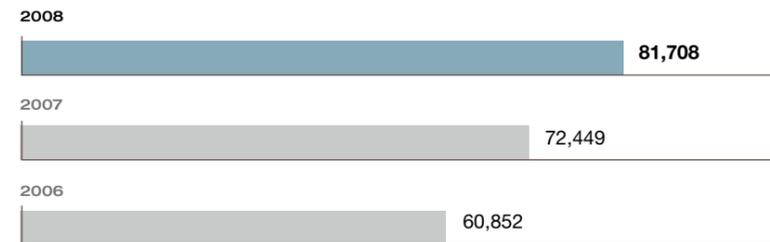
### Sales

(Unit: Million KRW)



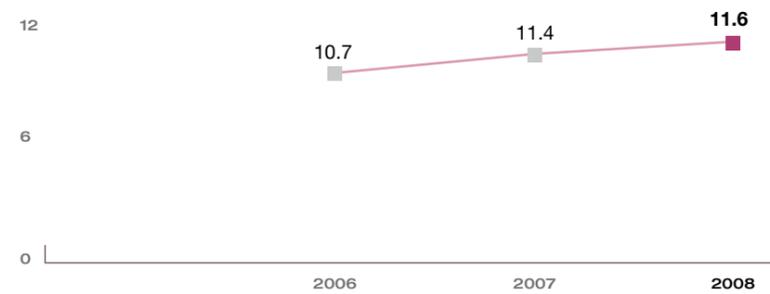
### Operating Profit

(Unit: Million KRW)



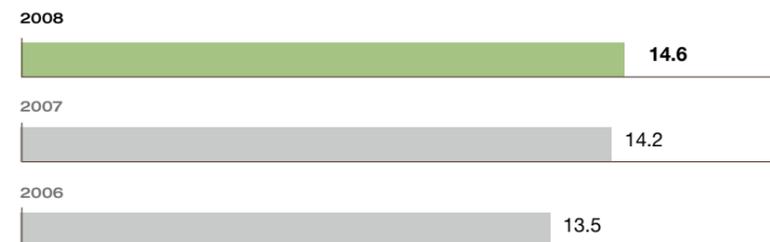
### Operating Profit Ratio

(Unit: %)



### EBITDA Margin

(Unit: %)



### Balance Sheet

(Unit: Million KRW)

|                            | 2006    | 2007    | 2008    |
|----------------------------|---------|---------|---------|
| Current Assets             | 266,537 | 284,328 | 292,704 |
| Non Current Assets         | 328,540 | 386,640 | 438,911 |
| Total Assets               | 595,077 | 670,968 | 731,615 |
| Current Liabilities        | 211,091 | 216,188 | 249,134 |
| Non Current Liabilities    | 64,829  | 126,834 | 132,271 |
| Total Liabilities          | 275,920 | 343,022 | 381,404 |
| Total Shareholders' Equity | 319,157 | 327,946 | 350,211 |

### Income Statement

(Unit: Million KRW)

|                                     | 2006    | 2007    | 2008    |
|-------------------------------------|---------|---------|---------|
| Sales                               | 571,162 | 635,934 | 702,316 |
| Operating Profit                    | 60,852  | 72,449  | 81,708  |
| Income before Income Taxes Expenses | 46,346  | 49,939  | 71,007  |
| Net Income (Loss)                   | 27,767  | -3,072  | 43,375  |

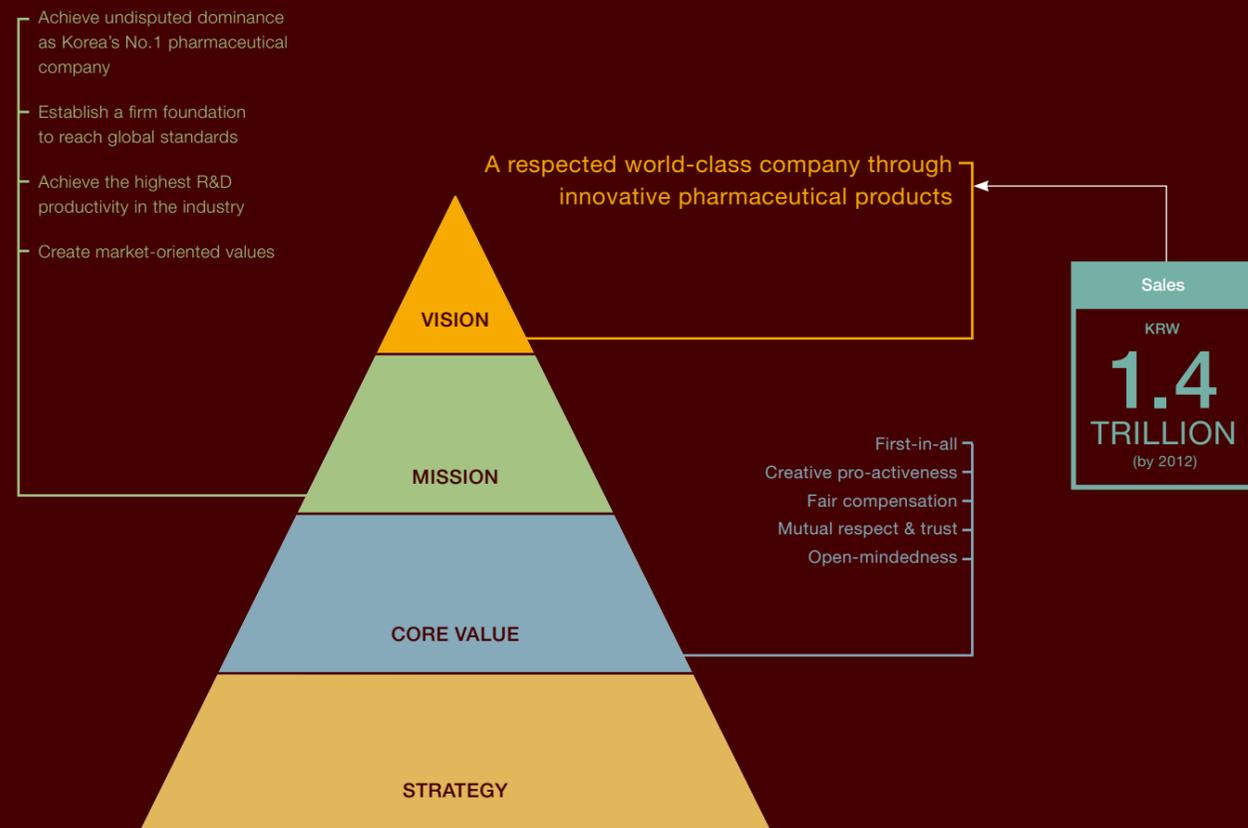
### Key Performance Indicators

(Unit: %)

|                         | 2006 | 2007  | 2008  |
|-------------------------|------|-------|-------|
| Sales Growth(YoY)       | 7.0  | 11.3  | 10.4  |
| Operating Profit Ratio  | 10.7 | 11.4  | 11.6  |
| Debt to Equity          | 86.5 | 104.6 | 108.9 |
| Interest Coverage Ratio | 8.1  | 9.3   | 7.9   |
| ROE                     | 8.7  | -0.9  | 12.4  |
| EBITDA Margin           | 13.5 | 14.2  | 14.6  |

## Vision & Strategy

Dong-A has set in place strategic principles and a firm value system that underpin our capability to succeed in the global market.



### Vision 2012

In order to effectively respond to the rapid changes taking place in domestic and international pharmaceutical markets, and to make the leap from Korea's No.1 pharmaceutical company to become a major global player, Dong-A has announced 'VISION 2012', which sets forth the specific actions the company will take going forward.

This Vision will serve as our guideline in creating new value for our stakeholders and achieving sustainable growth for our company.

'Vision 2012' specifically defines Dong-A's strategies for its transition into a respected world-class company that produces innovative pharmaceutical products. It comprises four missions to be successfully completed by 2012:

First, Dong-A will secure absolute dominance over the Korean market and solidify its position as the No.1 pharmaceutical company. While strengthening our core businesses and securing leadership based on the 'Select & Focus' strategy, we will set the standards for the domestic industry.

Second, Dong-A will establish global standards for all its operations. We will foster world-class talent with the ability to operate internationally, and upgrade all our processes throughout the value chain, including R&D, manufacturing, marketing and sales, establishing the infrastructure of a globally-competitive enterprise.

Third, we will maximize the benefits of our R&D investments by developing innovative medicines which will meet future demands and serve as engines of sustainable growth. In addition, by prioritizing the acquisition of technologies applicable to a wide range of products, we will improve the efficiency of our R&D efforts.

Fourth, Dong-A will gear its entire enterprise toward boosting our ability to respond to the market and to create value. To that end, we will adopt a customer-focused mind-set, and put profitability ahead of sales volume.

Everyone at Dong-A is behind the Vision. By pooling our collective abilities we will bring 'Vision 2012' into reality. With the achievement of this Vision, Dong-A will not only be the undisputed No. 1 pharmaceutical company in Korea, but will be on the way to becoming a leading pharmaceutical company in the global market.

# Improve

Each year should be better than the one before; each new product launch more successful than the last. Dong-A strives not just for excellence, but continual improvement. That means a better workplace, higher returns, more effective products and a better life for all.



PERFORMANCE &  
PRODUCTS

RESEARCH &  
DEVELOPMENT

CORPORATE  
GOVERNANCE

BUSINESS  
DEVELOPMENT

SUSTAINABILITY

16 page

**We are an industry-leading company**  
with a world-class product line that  
improves people's quality of life.

26 page

**We accelerate innovation**  
with a vibrant research pipeline in novel drug  
development and biopharmaceutical drugs.

34 page

**We are a value-driven organization**  
with strong corporate governance that  
maximizes shareholder value.

42 page

**We are expanding globally**  
with a flexible strategy that reveals unique growth  
opportunities in new markets.

48 page

**We invest in communities**  
with an unwavering commitment to corporate  
integrity, fairness and hope for the future.

**We are an industry-leading company** with a world-class product line that improves people's quality of life.

Dong-A's product lines span ethical (ETC) drugs, OTC products, active ingredients and diagnostic medicines. By constantly striving to develop innovative medicines, Dong-A has been able to improve the health care treatments of countless people. Now, Dong-A is undertaking the mission of spreading its gifts to the world.

우리가족의 건강지킴이...  
당신이 있어서  
정말 든든합니다.

"Dong-A's advanced products are helping us to lead happy, healthy lives."



**Pursuing  
global excellence**

Dong-A, like many companies, was faced with serious challenges at home and abroad in 2008. Dwindling demand resulting from the global economic downturn, rising raw material costs due particularly to spiking oil prices, and government intervention in drug pricing regimes all impacted our business. Nonetheless, we were able to maintain our No.1 position in Korea, with annual sales rising about 10 percent to KRW 702 billion. Operating income reached KRW 82 billion for the year, while net profit recorded a respectable KRW 55 billion. Moreover, Dong-A Socio Group, Dong-A's parent organization, reported an impressive KRW 1 trillion in sales for the year.

A major contributor to this financial performance has been the strong sales growth of our ethical (ETC) medicines. Stillen<sup>®</sup>, a gastritis treatment, is the nation's most popular new ETC drug, bringing in revenues of KRW 74.8 billion in 2008. Plavitor<sup>®</sup>, an antithrombotic medication, reaped KRW 30 billion in sales, up 131 percent over 2007, while Orodipine<sup>®</sup>, a hypertension therapy, posted a 73 percent rise in sales to KRW 23.2 billion. Zyderna<sup>®</sup>, our blockbuster treatment for erectile dysfunction, which set a domestic record with KRW 10 billion in sales just one year after its launch, now takes a 25 percent market share to rank second in Korea, after Viagra<sup>®</sup>. Bacchus<sup>®</sup>, our flagship energy drink, continues to gain in popularity, posting a record KRW 119 billion in sales, while Morning Care<sup>®</sup>, a morning-after drink for treating hangovers that Dong-A released after three years of R&D, has been sold more than 15 million bottles since its launch three years ago.

We attribute these successes, achieved in spite of a difficult business environment, to our 76 years of effort in developing key technologies and novel drug development capabilities, as well as our unceasing drive to expand and improve our marketing networks. Dong-A will continue working to maintain its No.1 position and expand its lead in the market with ever-improving competitiveness, products and global sales performance.

## Our 2008 sales of KRW 702 billion

secured Dong-A's position as the No.1 pharmaceutical company in Korea, bolstering our confidence as we embark on new journeys into overseas markets.

### Stillen<sup>®</sup>,

a gastritis treatment made from mugwort extracts, was Dong-A's first commercial product to be developed in-house. Its development process was closely linked to strategic planning and market analysis functions, and we have managed the brand carefully since its launch. As a result, Stillen<sup>®</sup> now records annual sales of KRW 74.8 billion as of the close of 2008, a rise of 24 percent compared with 2007's total of KRW 60.2 billion. In addition to its proven efficacy, Stillen<sup>®</sup>'s sales are boosted by its aesthetic qualities. Its mugwort scent and green bottle identify it immediately as a natural product. Its name, chosen by Dong-A's Chairman Shin-Ho Kang, derives from the German word for 'still and calm', implying the comfort received from taking the medication. Due to its multiple competitive advantages and careful brand management, Stillen<sup>®</sup> is recognized as a model for the launch of other novel drugs, and has opened a new chapter in the history of Korean pharmaceuticals.

Sales of Stillen<sup>®</sup>  
(Unit: KRW Billion)



### Zydena®

is an oral erectile dysfunction treatment, the first such drug to be developed in Korea, and the fourth in the world. Domestically and abroad, it is marketed under the slogan 'The most powerful choice'. Released in 2005, subsequent clinical testing proved its effectiveness for treatment of patients with diabetes and hypertension in 2007. Zydena® has since grown into a blockbuster drug, enjoying domestic sales of more than KRW 10 billion, with the total value of export agreements exceeding US\$ 300 million since 2006, covering such locations as Russia, South America and Southeast Asia. In preparation for Zydena®'s advance into the US, Dong-A has completed Phase II clinical trials and initiated Phase III trials. Compared with other domestic competitors, who have struggled to globalize their brands and main products, Dong-A is achieving tangible results from its globalization drive, and recording successes befitting the nation's No.1 pharmaceutical company.

Sales of Zydena®  
(Unit: KRW Billion)



### Realizing 'Global Dong-A'

2008 marked the successful completion of the first year of 'Global Dong-A'. It was a year in which we firmed up our international presence and recorded landmark achievements. Following a globalization strategy of first penetrating developing markets in Asia, Latin America, Eastern Europe and the Middle East, we expanded our exports and gained valuable experience for our drive into developed markets.

Dong-A has signed export agreements for Zydena® covering 30 countries, including Asia, South America and Russia. The total value of these contracts exceeds US\$ 300 million, the highest for a domestic novel drug. In December of 2008 alone, US\$ 50 million in new export contracts were signed, and the first shipment to Russia's Valenta Medical Co. was completed. Russia's market for erectile dysfunction therapies is currently growing at double digits annually, representing an attractive growth opportunity for Zydena®. Dong-A stands ready to put its full support behind Zydena® to ensure its rapid capture of a large share of the Russian market.

In March of 2008, Dong-A invited medical doctors from the Philippines to Korea to attend information and academic seminars, following the signing of new export contracts for Stillen®. We are aggressively pushing Stillen®'s penetration into overseas markets based on its proven efficacy and minimal side effects, and expect to increase exports in line with our global marketing efforts.

As for our flagship Bacchus® brand, it is now exported to 30 countries, including the US, China and the Philippines, with locally-tailored flavor and packaging. This type of localization strategy is a key component of our drive to make Bacchus® a brand known around the world.

Dong-A has made  
great progress on its path

to becoming an R&D-driven global pharmaceutical company, and is well-positioned to create more opportunities to improve the lives of our customers.

**Undisputed  
market leadership**

In addition to Stillen® and Zydena® — two of our most successful in-house developed drugs — and our signature energy drink Bacchus®, Dong-A boasts a line of hit products each posting over KRW 10 billion in annual sales.

Dong-A's "Big 5" lineup comprises Stillen®, Nicetile®, a nootropic drug, Opalmon®, a thrombolytic, Orodipine®, a hypertension treatment, and Plavitor®, an anti-thrombolytic. Together, the Big 5 brought in a total of almost KRW 200 billion in sales during 2008. Additionally, Lipinon®, a hyperlipidemia treatment, Growtropin®, a biopharmaceutical growth hormone analogue, and Gaster®, a gastritis treatment, contributed to Dong-A's growth in ETC sales.

In the OTC field, Panpyrin®, Circulan®, Bigen Cream Tone®, Morning Care®, Garglin® and Tempo® have maintained their status as leading brands and recorded growth in sales.

**Business strategies  
for each sector**

**ETHICAL DRUGS (ETC)** Dong-A has successfully established itself as a leader in ETC drug development, backed by rapid growth in sales of its ETC products. With invigorated marketing campaigns targeting hospitals and medical clinics, and a solid R&D pipeline, Dong-A has maintained an average annual growth rate of 20 percent for its ETC products for the past four years, well ahead of the industry average of eight percent. In 2008, Dong-A's share of total ETC sales amounted to 56.7 percent. We hold 18 major products (14 ETC; 4 OTC) having annual sales of over KRW 10 billion — the largest number in Korea.

In 2009, our goal is to stabilize total sales by expanding the share of sales from ETC drugs. Supported by thorough market research and a strong sales team, we will continue to push the development of KRW 10 billion-plus power brands in our generic drug portfolio, as well as our in-house new drugs Stillen® and Zydena®. To develop our portfolio of super-generics and in-house developed drugs, Dong-A will foster professional MRs and strengthen our position in the medical clinic market.

Backed by a product lineup  
of advanced drugs

developed through relentless innovation, Dong-A is expanding its domestic lead and creating the foundation for long-term international growth.

**OVER-THE-COUNTER DRUGS** Bacchus® is Dong-A's premier OTC product. Already a blockbuster, its popularity is increasing with active marketing to people in their teens and twenties, along with improving our services to pharmacies so as to maintain strong customer loyalty. We are also implementing operational changes to boost profitability, such as combining distribution channels with mega-scale products like Panpyrin®, Bigen Cream Tone®, Circulan®, Garglin® and Tempo®. Through such integrated marketing and distribution strategies, Dong-A is making the most of its powerful connections with pharmacies.

**BIO-PHARMACEUTICALS** Bio-pharmaceutical products are currently enjoying strong demand and high growth in Korea and overseas. To meet this demand, Dong-A has conducted extensive R&D to develop competitive bio-pharmaceuticals that will meet future market needs. In the process, we have built core capabilities and secured technologies in cell culture, protein chemistry, DNA-based ETC drugs and drug testing processes. Our development pipeline is currently working on five candidates, as well as two pre-clinical and six clinical drugs.

**Bacchus®**

has been a much-loved brand and a Korean icon since its first release in 1961. Its popularity is proven by its annual sales volume of KRW 119 billion in 2008. The drink received its name from Dong-A's chairman, Shin-Ho Kang, who saw a statue of Bacchus, the god of wine and harvest, during a visit to Hamburg. With a history now spanning nearly half a century, Bacchus® is a steady source of profit that has helped to finance Dong-A's investments in R&D and novel drug launches, propelling our rise to the top of the nation's pharmaceutical industry. 2008 sales showed a growth of six percent in the domestic market, and the list of export destinations has grown to 30 countries. Using localization strategies tailored to each market, Bacchus® is gaining recognition and spreading its legendary fame to the global stage.

Sales by division in 2008

(Unit: %)

- ETC
- Bacchus®
- OTC
- Medical Equipments & Diagnostics
- Exports
- Others



## Dong-A's Key Products

### ETC PRODUCTS

#### Cozartan® Tablet

HYPERTENSION

Cozartan® is an ARB (angiotensin receptor blocker) product launched in November 2008 to target the fast-growing hypertension market. It acts to lower blood pressure by blocking the binding of angiotensin II, a strong vasoconstrictor, with its receptor. It is particularly effective at treating dry cough, one of the chief side effects of existing ACE-I drugs. Also, as a synthetic drug, Cozartan® is differentiated from competing ARB products. 2009 sales of this new product are forecasted to reach KRW 12.3 billion, which will combine with Orodipine® to boost Dong-A's market share in hypertension drugs.

#### Gaster® Tablet

PEPTIC ULCER TREATMENT

Gaster® was released in 1985 by Astellas of Japan following years of research for the development of a safer and more effective peptic ulcer treatment. An excellent drug with full FDA approval, Gaster® is now prescribed in 140 countries around the world. Its active ingredient is 20 mg of Famotidine, a histamine-2 receptor antagonist that strongly inhibits production of gastric acids. Having a wide safety margin (LD50/ED50) and fewer side effects than competing drugs, Gaster® is applied for the treatment of various types of peptic ulcer complaints, including upper gastrointestinal bleeding, reflux esophagitis and gastritis. Net sales of KRW 16.7 billion place Gaster® as the third highest in domestic market share among H2RA drugs, with 2009 sales expected to top KRW 18 billion.

#### Glimel® Tablet

DIABETES

Glimel® is a commonly-prescribed hypoglycemic agent containing glimepiride as its main ingredient. It is a generic version of Amaryl®, which has been proven safe and effective through extensive clinical testing. Glimepiride acts to stimulate insulin secretion from Islets of Langerhans cells in the pancreas, resulting in lowered blood pressure and increased insulin sensitivity in peripheral tissues, which in turn raises glucose uptake. Glimel® significantly reduces the risk of low blood sugar, a common side effect of existing sulfonylurea drugs, and causes no weight gain. It is a synthetic drug produced using patented particle-fining technology that enhances the drug's dissolution rate and raises its bioavailability relative to other generics. Rigorous testing has shown Glimel® to be a biological equivalent of Amaryl®. Net sales for 2008 recorded KRW 13.6 billion, making Glimel® the nation's top generic drug, according to IMS data.

#### Growtropin® Injection

GROWTH HORMONE

Growtropin® is Korea's first bioengineered growth hormone drug. It is clinically applied for the treatment of short stature resulting from pituitary hormone deficiency, and is marketed in 4IU, 12IU and 16IU forms for convenient dosing. A 30IU pen cartridge form was released in 2008, and has been favorably received by both doctors and patients. Growtropin® solidified its share of the domestic market by recording KRW 14.4 billion in net sales in 2008.

#### Lipinon® Tablet

ARTERIOSCLEROSIS

Lipinon®, a hyperlipidemia treatment released in June of 2008, has already recorded sales of KRW 10 billion and is on its way to becoming one of Dong-A's flagship brands. Lipinon® is a generic version of Pfizer's Lipitor®, one of the world's best-selling drugs. It contains atorvastatin as its active ingredient, which is effective in quickly reducing serum cholesterol levels while having reduced side effects, such as muscle pain. While existing statin drugs must be taken at bedtime, Lipinon® offers increased convenience and maximizes patient compliance by being able to be taken at any time, regardless of food intake. Worth about KRW 84 billion in 2007, the atorvastatin market experienced a growth spurt with last June's release of generic versions. It is expected to soon reach KRW 140 billion in value, with about thirty generic versions of atorvastatin currently on the market. Following a successful posting of KRW 9.6 billion in net sales in 2008, Dong-A's Lipinon® is expected to record KRW 20 billion in net sales this year.

#### Nicetile® Tablet/Powder

NOOTROPICS

Released in 1994, Nicetile® is Dong-A's premiere ethical (ETC) drug. It is a nootropic that acts to increase the brain's cognitive functions. The active ingredient is a compound found naturally within the body, which readily crosses the blood-brain barrier and stimulates the supply of oxygen to brain cells. It has little or no side effects and is highly safe, being widely prescribed by hospitals and clinics nationwide since its release. Nicetile® recorded sales of KRW 38 billion for 2008, making it Dong-A's representative ETC product.

#### Opalmon® Tablet

THROMBOLYSIS

Opalmon®, a derivative of prostaglandin E1, was first identified as a treatment for Buerger's Disease, which causes acute inflammation and thrombosis of blood vessels. In 2001, the drug's range was expanded to application for Lumbar Spinal Stenosis (LSS), and its domestic sales have grown steadily from KRW 1.4 billion in 2001 to KRW 32 billion in 2008, a CAGR of 57 percent. The potential domestic LSS market is believed to be over KRW 100 billion, and Opalmon®, as Korea's only LSS treatment, will solidify its presence as a representative Dong-A product.

#### Orodipine®

HYPERTENSION

Orodipine® is a calcium antagonist comprising amlodipine orotate as its active ingredient. It was released in 2006 to target a hypertension market that is growing in line with Korea's rapidly aging population. It acts to lower blood pressure by blocking the entry of calcium ions into smooth muscle cells, thereby inhibiting vasoconstriction. In a domestic amlodipine market worth about KRW 200 billion, Orodipine® now controls a 12 percent market share, following a 73 percent rise in annual sales to KRW 23.2 billion in 2008. With the population of hypertension patients rising steadily, this drug is expected to continue making a major contribution to Dong-A's sales in the coming years.



#### Plavitor® Tablet

ANTITHROMBOLYTIC

Plavitor® is a generic version of Plavix®, a cardiovascular drug with clopidogrel as its main ingredient, developed by Sanofi-aventis to treat cardiovascular ailments. By selectively blocking the binding of ADP to its receptor on platelets, clopidogrel effectively reduces symptoms of cardiovascular patients suffering stroke, myocardial infarction or peripheral arterial symptoms. Plavitor®'s superiority to existing antithrombolytic agents lies in its rapid effectiveness, convenient single daily dosage, reduced GI bleeding side effect, and safety for a broad range of patients, including the elderly. Clinical studies have also shown it to be safer than aspirin therapy. These advantages have led to its being widely prescribed at Korean hospitals and clinics. First released in 2006, Plavitor® holds the highest domestic market share among clopidogrel generic drugs with 2008 net sales recording KRW 30 billion, and 2009 forecasts pointing upwards of KRW 40 billion.

#### Talion® Tablet

ANTIHISTAMINES

Talion® is a second-generation antihistamine containing bepotastine besilate as its active ingredient. It exhibits advantages of rapid effectiveness, strong suppression of IL-5 production, minimal drowsiness and high H1 selectivity. Clinical studies have also confirmed the drug's safety and effectiveness. Its range of applications includes allergic rhinitis and pruritis accompanying skin ailments and chronic hives, and it is safe for use in conjunction with other medications. Released in 2004, Talion® rose to the top position in domestic market share by 2007, according to IMS. 2008 net sales posted KRW 15.4 billion, and it continues to increase its share of the domestic antihistamine market.



### OTC PRODUCTS

#### Panpyrin®

COLD MEDICINE

Since its launch in 1956 as Dong-A's flagship cold remedy, Panpyrin® has evolved through 'Panpyrin® Solution' and 'Panpyrin® S', assuming its current brand name, 'Panpyrin® Q', in March, 2007. Panpyrin Q augments the previous formula with 5mg of tipepidine citrate to strengthen antitussive and mucolytic effects, thereby broadening the medication's scope beyond cold, achiness and headache and to also treat cough and phlegm. The packaging was improved to a 5-bottle pack, each fitted with a convenient one-touch-opening cap, and the labeling was revamped to make 'cold', 'achiness' and 'headache' indications more easily recognized. With over 65 percent share of the domestic liquid cold remedies market, Panpyrin® is a Korean icon with embedded brand value.

#### Circulan®

BLOOD CIRCULATION

Taking its name from the word 'circulate', Circulan® is a synthetic mixture of traditional ingredients known to promote good blood circulation in the body. It comprises extract of Hawthorn berries, which are widely used in Asia to safely treat cardiovascular ailments in the elderly without causing unpleasant side effects, along with extracts of Ginko leaf, Melissa leaf and garlic oil. First released in 1994, Circulan® is a popular tonic for enhancing blood circulation and treating age-related illnesses, and is often purchased as a gift for elderly relatives.

#### Bigen Cream Tone®

HAIR COLOR PRODUCTS

Bigen Cream Tone®, a cream-type hair dye, is imported ready-to-use from HOYU Co., Japan's No. 1 hair dye manufacturer. The product has been gaining market recognition in Korea, with 2008 sales reaching KRW 15.4 billion. Dong-A has provided strong marketing support for Bigen®'s brand extension in the past year, releasing 'Bigen® Speedy Conditioning Color', a fast-acting hair dye and conditioner, and 'Bigen® Fragrant Hair Color', which replaces the typical hair dye odor with a fruity-floral scent. With planned additional production launches and an expanded distribution network, we look forward to continued growth of the Bigen® line.

**We accelerate innovation** with a vibrant research pipeline in novel drug development and biopharmaceutical drugs.

With its continuous investment in R&D, Dong-A has cemented a strong competitive lead in the domestic pharmaceutical industry. Our innovative new products are now leading the way for Dong-A's expansion into the global market.

인류의 건강 및 행복 증진에  
기여할 약품을 개발한다는  
자부심이 우리의 성장동력입니다.

"I take pride in knowing that I develop medicines that bring health and happiness to humankind."



Pursuing our goal of developing into a global R&D-focused company, Dong-A is building up a competitive R&D portfolio to lead our charge into international markets. By leveraging our strengths in specialized area, Dong-A will develop world-class medicines and super-generics that meet the needs of the global market.

At the same time, acknowledging the need to build up a top-quality infrastructure to compete with global-scale drug makers, we are increasing our investments in R&D. By 2010, our new Research Center will be completed and take on its new role as the hub of Dong-A's ceaseless innovation.

**Setting industry standards in R&D**

Working toward the accomplishment of Dong-A's 'Vision 2012', we are systematically building our R&D portfolio to compete on the global market.

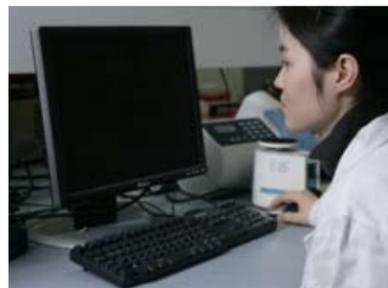
**Expanding our field of specialized novel drugs**

The strength of Dong-A's novel drug development capability has been evident for many years, emboldening us to make the leap onto the global stage. Stillen®, a natural product-based new drug comprising extracts of mugwort launched in 2002, reaped sales of KRW 74.8 billion in 2008 in Korea alone. It serves as an example of our company's successful development of new, naturally-derived medicine. Zydena®, Korea's first and the world's fourth erectile dysfunction drug was launched in 2005 following excellent results in clinical testing. It posted domestic sales of KRW 14.2 billion in 2008, competing head-to-head with the world's top multinational companies in novel drug development.

In conducting our R&D activities, Dong-A gives top priority to research that will lead to the development of quality-of-life-relat-

ed products. Leveraging our technology and accumulated experience, we strive to create brands that can compete globally, such as Zydena® in the genitourinary area and Stillen® in the gastrointestinal area.

Based on know-how accumulated through the development of Stillen®, Dong-A has developed atopic dermatitis treatment and gastroprokinetics derived from natural products. At the same time, we are expanding our research areas to cover functional dyspepsia and irritable bowel syndrome treatments. Dong-A is also looking into additional applications and exploring new markets for Zydena®, a product for which we hold the patent. While we strengthen our existing research competencies, we are also maximizing our capabilities in metabolic disease and endocrinopathy research area, such as diabetes and obesity. The fruits of Dong-A's research efforts in Korea will over the long term be applied for further testing, approval and marketing in overseas targeted market.



**Expanding research on biopharmaceuticals, targeting the global market**

The development of bio-pharmaceuticals is an exciting field, showing high growth potential in international market. Dong-A started its own research activities in this area in the early 1980s', showing foresight in preparing for future market demand.

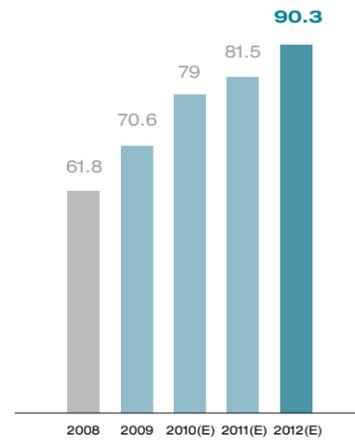
We have bio-pharmaceutical candidates under continuous development in our



labs, applying genetic recombination and animal cell culturing technologies. Carrying out research into new protein-based drug, we are developing second-generation products that dramatically augment the efficacy of existing drugs using either PEGylation or microsphere technology. Our purpose with such research is to enhance patients' compliance. Another area in which we are active is the development of bio-similars; for example, hCG for infertility treatment, PEG-G-CSF for neutropenia treatment, PEG-IFN-α for hepatitis C treatment, IFN-β for multiple sclerosis treatment, GCR for Gaucher's disease treatment, and bFGF for COPD treatment.

In addition, Dong-A is now conducting the multiple clinical tests using naked DNA delivery system for chronic hepatitis B and cancer-targeted therapies. Our research scope is also expanding into therapeutic monoclonal antibodies - which have recently gained increased worldwide attention, so as to ensure that our research standard meets international criteria from an early stage of drug development.

**R&D Investment**  
(Unit: KRW Billion)



**Rapid development of super-generics applying novel drug delivery system**

Another goal of Dong-A's research has been to time its product development, so as to be prepared with super-generics for immediate mass marketing. A tried-and-true development strategy for such products is to select generics whose efficacy has been proven through clinical testing, and then improve them with upgraded drug-delivery system that Dong-A has developed over many years. While the development of first-generics is necessary for earning short-term profits, considering the highly competitive market environment and government price controls, it is very important to secure the platform technology by developing super-generics for long-term advantage.

By procuring specialized technologies, we will strive to create new formulations that boost the efficacy of existing drugs, and above all, to make a gradual shift toward pharmaceutical products that can compete in the world's most advanced market.



**Developing OTCs for the mass market**

Dong-A has a proven track record in OTC mass-marketing, exemplified by such steady sellers as Bacchus®, Panpyrin® and Circulan®. Based upon our sales and marketing know-how for managing OTC products, we will focus on the launch of strategic 'Big Brand' OTCs that meet the broad spectrum needs from consumers. Dong-A is particularly adept at the development of OTCs through rigorous clinical testing, a distinct advantage in today's rapidly changing market.



**Accelerating innovation in R&D**

As long aware of the importance of R&D to our company's future, Dong-A has made continuous investments in R&D and logged an outstanding record for new product development. Since the establishment of our Research Center in 1977, we have launched Biopharmaceutical products created with genetic recombination technology, and developed active pharmaceutical ingredients for antibiotic medicines. We are especially proud of the success of our new drugs Stillen® and Zydena®, which stand as proof of Dong-A's high-level R&D capability.

Our R&D expenditures have been rising continuously over the years, and will continue to do so. These investments have gone into the creation of a world-class R&D infrastructure and the cultivation of seasoned research professionals. A large part of our R&D is conducted jointly with foreign experts who can share the latest technologies and know-how with us. Dong-A is also seeking to the strategic alliance with foreign partners as a fast-track innovation, and actively pursues tie-ups with respected companies and institutions. Acknowledging our research scientists as the core of our R&D activities, we support them in every respect and plan to increase their numbers significantly to 370 by 2012.

Dong-A is now constructing a large-scale Research Center which will be able to accommodate our expanded workforce and their equipments. The facility concept designer, HDR-CUH2A of the US, has designed research centers for multinational companies including Pfizer, Merck and GSK. Construction is expected to be completed in 2010, at

which time the new facility will become the hub of Dong-A's innovation efforts and the source of new growth engines.

The new center will be more than just a building. Dong-A is also setting up the sophisticated research management systems to efficiently control human and logistical resources, and enhance research productivity. A particularly important task is the application of proper screening and verification techniques at all stages of drug development, so as to enable us to intensively put our resources into the development of the most promising candidates. In terms of organization, three research laboratories: Drug Discovery, Biopharmaceutical and Pharmaceutical Product, and Research Management Department comprising the Research Planning Team and Research Support Team will focus on the exploration of core technologies and know-how to develop the world-class pharmaceutical drug.



## R&amp;D Pipeline

| CODE NAME<br>(BRAND NAME)        | INDICATION  | DESCRIPTION                                | LATEST PHASE                           | LICENSING<br>AVAILABILITY    |
|----------------------------------|---|--|--|------------------------------|
| <b>NCE</b>                       |   |  |  |                              |
| <b>DA-8159</b><br>(Zydena®)      | Erectile dysfunction                                      | PDE-V inhibitor                            | Launched                               | Available for some territory |
| <b>DA-8159</b>                   | Portal hypertension                                       | PDE-V inhibitor                            | Ph II (Europe)                         | Available for some territory |
| <b>DA-8159</b>                   | BPH, PAH  | PDE-V inhibitor                            | Pre-clinical                           | Available                    |
| <b>DA-6034</b>                   | Gastritis, Dry Eye  | Flavone derivative                         | Ph II<br>Pre-clinical                  | Available<br>Available       |
| <b>DA-7218</b>                   | Infection (cSSSI)   | Oxazolidinone class antibiotic             | Ph II (USA)                            |                              |
| <b>DA-6650</b>                   | Functional dyspepsia, Gastroparesis, Acute gastric stasis | 5-HT4 Agonist                              | Ph I                                   | Available                    |
| <b>DA-1229</b>                   | Type 2 diabetes   | DPP-4 inhibitor                            | Ph I                                   | Available                    |
| <b>Phytomedicine</b>             |   |  |  |                              |
| <b>DA-9701</b>                   | Functional dyspepsia                                      | Herbal Extract                             | Ph III                                 | Available                    |
| <b>DA-9102</b>                   | Atopic dermatitis   | Herbal Extract                             | Ph II                                  | Available                    |
| <b>DA-9201</b>                   | Asthma  | Herbal Extract                             | Ph II                                  | Available                    |
| <b>Biotechnological Products</b> |   |  |  |                              |
| <b>DA-3801</b><br>(Gonadopin®)   | Infertility   | Recombinant FSH                            | Launched (COH)<br>Ph III (Anovulation) | Available for some territory |
| <b>DA-3803</b>                   | Infertility   | Recombinant hCG                            | Ph III                                 | Available                    |
| <b>HB-110</b>                    | Hepatitis B   | Therapeutic DNA vaccine                    | Ph I                                   | Available                    |
| <b>DA-3201</b>                   | COPD, Asthma  | Recombinant basic fibroblast growth factor | Pre-clinical                           | Available                    |
| <b>DA-3051</b>                   | Multiple sclerosis  | Interferon-β                               | Pre-clinical                           | Available                    |
| <b>DA-3607</b>                   | Brain tumor   | TRAIL                                      | Ph I                                   | Available                    |
| <b>GX-12</b>                     | HIV-1   | Therapeutic DNA vaccine                    | Ph I                                   | Available                    |
| <b>DA-3091</b>                   | Type 2 diabetes   | Sustained-release formulation of exenatide | Pre-clinical                           | Available                    |
| <b>DA-3003</b>                   | Growth hormone deficiency                                 | Sustained-release formulation of rhGH      | Ph I                                   | Available for some territory |

## Pipeline Item Descriptions

**[DA-8159; Udenafil; Zydena®]**

The 4th PDE-V inhibitor, Udenafil, was launched in Korea in December of 2005 and its phase II trial in the USA was successfully completed in 2007. Dong-A had an EOP II (end-of-phase II) meeting with the US FDA in June, 2008 to initiate phase III trials in the US. Udenafil also shows great potentials for the treatment of non-ED (non-erectile dysfunction) indications such as BPH (benign prostatic hyperplasia), PAH (pulmonary arterial hypertension), PH (portal hypertension), etc. For the indication of PH, Dong-A has been already in partnership with an EU based licensee, who initiated in early 2008 a phase IIa trial with Udenafil in the UK, Germany and other EU countries.

**[DA-6650]**

DA-6650 is a benzamide-class prokinetic drug with a property of partial 5-HT4 receptor agonism. While a well-known 5-HT4 receptor agonist, Cisapride (Prepulsid®, Janssen), was withdrawn from the market in 2000 due to fatal arrhythmia, DA-6650 is not expected to be at such risk. Data on DA-6650 indicate that it is better than Cisapride and Mosapride in the measurements of gastric emptying, motility in small intestine, antiemetic effect, alleviation of visceral hypersensitivity, and so on. In early 2009 Dong-A is to file an IND in Korea for the indication of functional dyspepsia.

**[DA-1229]**

DA-1229 is a potential anti-diabetic compound acting via the same mechanism as Sitagliptin (Januvia® & Janumet®, Merck) and Dong-A will initiate a phase I study with DA-1229 in the first half of 2009. The PK-PD correlations between DPP-4 inhibition of DA-1229 and its corresponding plasma concentrations were analyzed in several animal models, in comparison with Sitagliptin. DA-1229 showed better profiles of EC80, clinically effective concentration at which 80% of plasma DPP-4 is inhibited, over Sitagliptin in mouse, rat, dog and monkey.

**[DA-6034 : Dry Eye]**

DA-6034, a derivative of eupatilin, is under development for the treatment of dry eye syndrome. Chronic dry eye syndrome is a condition characterized by patients' inability to produce appropriate amount and quality of tears to keep the eyes healthy and comfortable. The absence of efficient prescripational treatments for dry eyes is making the majority of dry eye patients merely rely on OTC artificial tear products which temporarily lubricate eyes and provide only limited relief. DA-6034 with great safety profile is expected to be an excellent prescription drug for dry eye by stimulating mucin secretion, increasing fluid secretion, controlling inflammation, and enhancing wound healing. Dong-A is to file an IND and initiate a phase I study in Korea in mid 2009.

**[HB-110]**

HB-110 is a therapeutic DNA vaccine for the treatment of HBV infection and it is an improved version of HB-100. Dong-A previously developed HB-100, which was shown to be safe and effective in pre-clinical studies, and the efficacy of HB-100 in hepatitis B patients has been confirmed through a proof-of-concept (POC) study conducted in Ukraine and Lithuania as a combination therapy with a nucleoside analogue. A product consisting of codon-optimized plasmids with a dual promoter system was later developed and coded as HB-110, whose safety and efficacy has been also proven in pre-clinical studies. Dong-A is currently conducting a phase I study for HB-110 in hepatitis B patients as a combination therapy with a nucleoside analogue.

**[DA-3607]**

DA-3607 is a non-replicative adenovirus carrying apoptosis inducer gene, TRAIL (TNF-Related Apoptosis Inducing Ligand), which delivers TRAIL gene into solid tumors and induces cancer specific cell death. In preclinical studies this gene therapeutic medicine showed potent tumor suppressor activities without significant toxic side effect against malignant brain tumor, for which no good treatment options are currently available. A phase I clinical trial for DA-3607 is scheduled to initiate in 2009 in Korea.

**We are a value-driven organization** with strong corporate governance that maximizes shareholder value.

Dong-A's Board of Directors is fully aware that a rigorous code of ethics is essential for earning the trust of investors and business partners. Our Board plays a serious role in building corporate value and maintaining the transparency and stability of the company's management.

작은 투자도  
한층 더 의미있게 만들어주는  
동아제약에 감사드립니다.

"I appreciate Dong-A for recognizing  
the importance of even small-scale investors."



### Corporate governance

**Dong-A respects the legitimate demands of stakeholders for transparency and ethical conduct on the part of large corporations. We are responding to these needs with concrete and stringent corporate governance and ethical management principles, and an effective compliance program.**

Earning the trust and respect of a wide range of stakeholders — customers, employees, suppliers, investors and local communities — requires an unwavering focus on sound corporate governance. It demands a commitment from each and every employee to do what is right and uphold the standards of ethical conduct at all times, from the Chairman of the Board to the researcher in the R&D lab.

A clear system and structure for ensuring sound corporate governance is our goal. The principles that guide our decision-making and business processes are as follows:

- responsible, value-based management focused on long-term success
- goal-oriented and efficient cooperation between management and employees
- respect for the interests of our shareholders and employees
- transparency and responsibility in all our business decisions, and
- appropriate risk management systems.

We have taken steps to raise the capabilities and independence of Dong-A's BOD, such as by appointing an additional outside Director at the 2008 AGM based on input from the Independent Outside Director Recommendation Committee, which is comprised of financial analysts and industry experts. The new appointee, Dr. Young-Ger Seo, is the Dean of Seoul National University's School of Pharmacy. Director compensation was approved at the AGM in accordance with the company's Articles of Incorporation, and in consideration of company performance. The 2008 Board comprised seven members, three of whom are independent and one of whom is affiliated. Dong-A intends to eventually raise the number of outside Directors to more than 50 percent of the Board.

With the ongoing integration of the global economy, we are made increasingly aware of the importance that international stakeholders attach to corporate governance issues. As part of our efforts to address this mood, Dong-A is improving the quality and quantity of its investor relations communications, which includes addressing the interests of minority shareholders and industry analysts. We are holding more frequent IR meetings where we discuss the status of our business and gather the input of shareholders, which we carefully review as part of our management decision-making processes. As of June, 2008, we launched a new and upgraded English website at [www.donga-pharm.com](http://www.donga-pharm.com), through which we provide improved management disclosure.

While stock prices in all industries across the globe have tumbled in the wake of the recent financial crisis, Dong-A's stock price has remained stable. The Korean pharmaceutical industry will grow in line with the country's rapidly aging population and increasing demand for improved quality of life, and we therefore expect that the future will hold increasing profitability and rising corporate value for our sector. Going forward, we will remain committed to practicing shareholder-friendly management, aiming to attract long-term shareholders through extensive global IR activities.

With solid corporate governance systems in place, Dong-A will maintain shareholder trust through the current economic downturn, and create lasting value for investors and all stakeholders.



**Ethical  
management**

**Providing a better way to grow together**

Dong-A first listed its shares publicly in the 1970s, and ever since we have made steady improvements to our management practices, financial structure and business organization. To ensure honesty and transparency, we have promulgated enterprise-wide ethical management as a core value and leadership principle. Adhering to this principle, Dong-A has enacted various regulations governing the operations and compensation of the Board of Directors and its Committees, along with other corporate governance provisions, and we guarantee the full independence of the Board.

In the area of Investor Relations (IR), Dong-A prioritizes the timely delivery of clear and complete financial and management information to shareholders, in order that our company's true value and potential can be properly reflected in its share price. In order to further strengthen investor protection, we have set in place clear policies for ethical management. Our strategy is to invest in R&D projects so as to maintain a robust pipeline of high-value novel drugs with long-term profit potential, while maintaining appropriate risk surveillance. In the financial area, we strive for efficient management of corporate assets so as to meet short-term performance goals, and we do not impose any limits on share transfers or consignment. While Dong-A has issued two classes of shares, we adhere to the principle of one share-one vote.

At this point in Dong-A's evolution, standing at the dawn of an enterprise-wide transition into a global pharmaceutical company, we are proud to have established a culture of ethical management prior to our full-scale global expansion. 2008 was an important year in solidifying the fundamentals of this culture, and we believe we have successfully embedded dedication to transparency and ethical management throughout our organization.



**Activities to encourage sustainable management**

**LAUNCH OF COMPLIANCE PROGRAM (CP)**

As Korea's pharmaceutical market has grown and competition intensified, instances of inappropriate transactions have unfortunately increased. One result of this has been an intensification of the government's oversight of the industry, after designating it as one in need of improved regulation. Something that all market participants must bear in mind is that our products are directly related to life, and that the end users are patients, not doctors. Accordingly, it is our responsibility to root out unfair practices and ensure fair competition throughout the industry. To this end, Dong-A launched its own in-house Compliance Program (CP) in 2008. The CP involves educational programs for employees and executives, the implementation of a self-monitoring system, and open access to a wide variety of competition-related information. Dong-A is leading the effort to establish fair business practices within our industry and to promote a culture of compliance. The result has been an enhancement of our reputation and prestige as Korea's No.1 pharmaceutical company, both in terms of sales and ethical conduct.

**TRANSPARENCY IN NOVEL DRUG DEVELOPMENT**

Dong-A has opened its novel drug development processes to public scrutiny. By displaying transparency with the very core of our future growth potential, we are demonstrating our commitment to fair management and earning investors' trust. Dong-A has the domestic industry's largest drug pipeline, and we are allowing the public to follow the progress and process of our R&D, touting our confidence in our technologies and capabilities. In the process, we are improving the company's public image and establishing Dong-A as a company that is devoted to the protection of life and service to humankind.

**DISCLOSURE OF BOD OPERATIONS AND FINANCIAL INFORMATION**

Through its Korean and English websites, Dong-A promptly discloses detailed information related to our share price and corporate governance, including BOD changes, management changes and quarterly results. We are using information sharing as a means to strengthen governance and transparency, believing that these efforts will pay off in terms of higher corporate value and the attracting of long-term, stable investors.

**CODE OF ETHICS**

Dong-A has enacted a detailed code of ethics that addresses the needs of all our stakeholders. Its articles cover our internal and external dealings with shareholders, customers, competitors, business partners and employees. These valuable policies will propel Dong-A forward in its quest to achieve sustainable growth and long-term stability as a model company.



Building firm  
relationships with  
stakeholders

In all our efforts to provide high-quality IR, we apply four fundamental values: passion, respect, integrity and discipline. These values guide all our business activities and form the foundation of our corporate culture, creating lasting value for our stakeholders.

Dong-A conducts various IR activities to ensure smooth and open communication between ourselves and market participants. These activities include corporate seminars, face-to-face meetings, conferences organized by securities companies, non-deal roadshows (NDRs) and domestic and international conference calls. The corporate seminars are scheduled to provide timely information to institutional investors on real-time business performance, and include quarterly earnings conferences with securities companies. Following these quarterly conferences, we conduct NDRs for seven or eight major institutions. In addition, we hold frequent face-to-face meetings with large investors who have expressed interest in Dong-A as often as 150 times per year, or 35 times per quarter.

Dong-A makes it a rule to hold an NDR at least once each quarter in Korea. We also hold at least two each year in Asia, plus two more in Europe or the Americas. In addition, about once every half-year we host seminars attended by CEOs and CFOs for the benefit of major shareholders and securities analysts.

Our IR information is also constantly updated on our website, providing a wide array of transparent information to the public and investor community at large. Our corporate website ([www.donga-pharm.com](http://www.donga-pharm.com)) discloses quarterly results, required corporate disclosures, analyst reports, annual reports and IR presentation materials. Meeting the modern trend of open access to information, Dong-A offers information and materials also relating to our R&D programs and other relevant issues, and provides a wealth of background information on the industry as a whole in order to increase investors' understanding and interest. Feedback from our website's visitors has so far been overwhelmingly positive.

Dong-A conducts all IR activities with passion and integrity, knowing that dependable IR is the foundation of a trusting relationship with investors and stakeholders. In 2008, we held 171 meetings with 499 investors from 415 institutions, a significant increase from the 152 meetings held in 2007. Dong-A will continue its mission to maximize shareholder value by positioning itself as the market leader in timely and transparent disclosure.



Major IR Activities  
in 2008

60th Shareholders' Meeting

Dong-A's 60th Shareholders' Meeting was held in the auditorium of the company's head office on March 14, 2008. At the general assembly, the agenda was approved as drafted, including changes to the corporate charter, re-appointment of Senior Executive Director Jung-Seok Kang, re-appointment of Auditor In-Sun Park, and appointment of External Executive Director Dr. Young-Ger Seo, the Dean of Seoul National University's School of Pharmacy. The resolution on dividends of 15 percent in cash and 2 percent in shares was passed. Won-Bae Kim, Dong-A's CEO, said at the meeting "Outstanding export volumes of the new drugs Stillen® and Zyderna® stands as a reward for the faith and support of our shareholders," adding "Building on the growth we attained through hard work in the past year, we pledge to continue to enhance shareholder value through the continued growth and development of Dong-A."

Other IR Activities

- **Overseas NDR:** Dong-A participated in an NDR in New York and London in May, 2008, organized by Korea Exchange and Daewoo Securities, which targeted 22 institutional investors including Soros Fund Management. In July, we joined an NDR in Hong Kong and Singapore, organized by Hyundai Securities and attended by eight institutional investors including Fidelity.
- **Major Shareholders Seminar:** Dong-A participated in Samsung Securities' Global Investors Conference in May, and hosted Corporate Day with Eugene Investment & Securities, also in May, and another Corporate Day with Mirae Asset in June.
- **Securities Companies Conference:** Dong-A participated in Samsung Securities' Global Investors Conference in May, and hosted Corporate Day with Eugene Investment & Securities, also in May, and another Corporate Day with Mirae Asset in June.



**We are expanding globally** with a flexible strategy that reveals unique growth opportunities in new markets.

Dong-A is advancing beyond its leading position at home to take its place on the world stage. While sharpening our competitive edge in the domestic pharmaceutical market, we will solidify our position in Latin America and Asia. Ultimately, we will achieve true globalization by forming strategic alliances and entering advanced markets together with top-tier multinational pharmaceutical players.



동아제약과의 파트너십을 통한  
양사의 동반성장에 대한  
기대가 큼니다.

“We are thrilled by the opportunities for mutual growth that our partnership with Dong-A has opened up for us.”

**Expanding  
global footprints**

**Dong-A has been proactive at penetrating new markets based on the strategic release of state-of-the art drugs from its advanced R&D laboratories. Dong-A's global businesses will be a core driver of the company's future growth.**

While building on its strength as Korea's No.1 pharmaceutical company, Dong-A is establishing an international presence in Asian, Latin American and East European markets. The company's major drivers of overseas growth have been the high export volume of Zydena®, biopharmaceutical products, and the breakout of the energy drink Bacchus® from overseas Korean communities into mainstream markets. Our biopharm products have been continuously exported to Southeast Asia, Latin America and India since we first entered those markets in the 1990s, and have enjoyed excellent growth. Dong-A's ethical (ETC) drugs have been particularly successful overseas, exceeding our export targets by 120 percent.

Now, our task is to implement our aggressive expansion strategies and become a rival for major pharmaceutical companies in Western Europe and the US. We will be selective in backing specialized products with distinct competitive advantages, and establish systems to ensure their prompt approval and registration. Foreign countries to which we are already exporting will be built up as bases for further expansion into new target markets, preceded by thorough market analysis and demand studies. A key part of these efforts has been the recruitment of local partners, a strategy that is especially effective for promoting rapid penetration of OTC drugs and supplements. Dong-A is building the infrastructure and developing the human resources needed to advance as an internationally-oriented pharmaceutical company.



As for our in-house developed drugs, our target markets for Zydena® are Asia, Latin America, Africa and the Middle East. We will strengthen Zydena®'s brand power by forging co-marketing agreements with major overseas partners having existing expertise in urology, and seek rapid market penetration following quick registration. Stillen®, which is already competitive in Asia, will receive new investment to differentiate it from existing natural products on the basis of its proven safety and effectiveness. Dong-A will also invest in promoting new natural product-based drugs in high-potential markets such as North America, Latin America, Africa and the Middle East.

In the field of biosimilars, our strategy is to move the current lineup from first-generation to second-generation products in Asian and Latin American markets. Both local clinical trials and approval will accelerate the products' launches. We are also evaluating European, Middle Eastern and African test-beds, seeking local partners with sufficient experience and resources to manage the clinical trials and approval processes. A further important tactic is to build our local networks with a view toward entering bids for government tender.

For generics, the main thrust is to raise price competitiveness by improving manufacturing efficiency, carefully choosing our target markets and then dominating the market by launching the products as first-generic drugs in the major markets including Latin America, Asia, Middle East and Africa. Our ultimate goal is to supply our super-generics to Europe and North America; therefore we are working continuously to build a corporate infrastructure meeting the regulatory standards of the advanced markets.

With carefully-planned strategies for each sector and region, Dong-A will globalize its brand and secure leadership in overseas pharmaceutical markets.



**COUNTRIES WITH  
EXPORT CONTRACTS**

- Argentina, Australia, Azerbaijan,
- Bangladesh, Brazil, Canada, Chile,
- China, Colombia, Egypt, Germany,
- Ghana, Greece, Guam, Guatemala,
- India, Indonesia, Iran, Italy, Japan,
- Jordan, Mexico, Mongolia, Myanmar,
- New Zealand, Pakistan, Peru,
- Philippines, Singapore, South Africa,
- Thailand, Turkey, Russia,
- United Kingdom, United States,
- Vietnam

**Seizing  
new opportunities  
in the global market**

Dong-A has cemented its market dominance based on a strategy of conducting thorough market analysis right from the product development stage. We forge partnerships with leading international players covering joint R&D, manufacturing, sales and marketing, complementing each other to gain mutual competitive advantage. These efforts have secured the competitiveness Dong-A needs for its entry to the global marketplace.

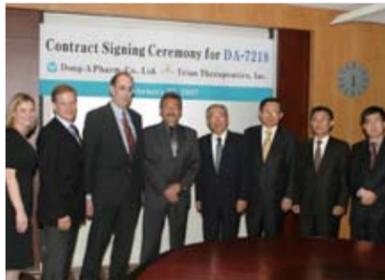
**2008 Overview**

With the highest level of marketing capability in the domestic arena, Dong-A achieved impressive growth in the ETC market in 2008. While the average growth rate for generic drugs as a whole was 56 percent, Dong-A's ETC products recorded growth of 70.8 percent in 2007 and 90.4 percent in 2008. The total export value for last year, including the erectile dysfunction drug Zyderna<sup>®</sup>, came to KRW 26.2 billion.

One of Dong-A's main competitive advantages is its strong and professional sales network. Our sales volume per sales rep in the second quarter of 2008 led the industry with KRW 160 million, and this figure continues to rise. 406 executives and employees of Dong-A hold the Medical Representative (MR) certification, recognized by the Korea Pharmaceutical Manufacturers Association. This figure represents 17 percent of all MR holders in Korea, the highest proportion at any one company.

A core element of our global marketing strategy is the formation of partnerships with leading foreign pharmaceutical companies. Such alliances are essential for securing advantage in the highly competitive global marketplace. Since the 1970s, Dong-A has created and fostered close links with partner companies in Japan, Northern Europe and Western Europe, securing vital engines for our continuing growth.

Exemplifying such tie-ups, in 2007 Dong-A licensed DA-7218, a second-generation oral and injectable form of oxazolidinone antibiotic, to Trius Therapeutics of the US. The drug completed Phase I clinical trials in the US and entered into Phase II trials in September, 2008. With its successful entry into Phase II, the commercial prospects for DA-7218 have improved markedly. Its advantages lie in its convenient single daily dosage and shortened administration period of five to seven days, which serve to increase patient compliance and lower their economic burden. Upon its commercial launch, Dong-A will collect royalties on global sales ex-Korea, a potentially enormous source of profits for the company, considering the current size of the global market. Given Dong-A's advanced R&D technologies and capabilities, we are highly confident for a successful completion of Phase II trials by Trius. Dong-A is also satisfied that it has chosen a capable and reputable foreign partner to move forward with the global market entry of DA-7218.



**2009 Outlook**

2009 is expected to be a challenging but exciting year. Competition in the domestic market is intensifying due to government-imposed price restrictions, and patent expiry is looming for many generic products. In preparation, Dong-A has formulated aggressive marketing plans for each product sector. Particular focus will be placed on our in-house developed new drugs, generic drugs facing intensified competition due to patent expirations, high-growth potential bio-pharmaceuticals, and OTCs and health supplements. We have also laid the groundwork for the launch of aggressive global marketing and sales drives. Among our in-house developed drugs, negotiations are underway for the export of Zyderna<sup>®</sup> erectile dysfunction treatment to the EU and Indonesia; while Stillen<sup>®</sup> gastritis medication is being prepared for export to Turkey, Jordan and other countries. In the field of expiring generic products, Actonel, an osteoporosis treatment of Sanofi-aventis, is being prepared for launch in April, and Cozaar Plus, a hypertension treatment of MSD, will be launched as a first generic in June.

To make our advance on the global market proceed more efficiently, Dong-A will upgrade its R&D network, entering into partnerships to carry out co-development of drugs in Japan and other nations under arrangements that help both partners to control costs and maximize use of resources.

Dong-A is also on the lookout for profitable acquisitions. We are interested in upgrading our drug development capabilities by acquiring a foreign company, or purchasing new drug candidates from foreign pharmaceutical companies or bio-ventures. In a world of limitless competition, Dong-A sees unlimited opportunity to strengthen its position and serve more customers through carefully-managed international partnerships.



# We invest in communities with an unwavering commitment to corporate integrity, fairness and hope for the future.

Dong-A spares no effort when it comes to fostering the competitive spirit and capabilities of its people. Our company's commitment to social contribution and community life begins with our belief that people come first, and that our own people are our No.1 asset. Our strategy for fostering the leaders of tomorrow involves giving them every opportunity to become actively engaged in Dong-A's many social contribution works.



어려움을 이기고  
꿈을 이룰 수 있게  
도와주셔서  
감사합니다.



"I thank Dong-A for helping me to overcome challenges and realize my dream."



**Building our talent,  
culture and capacity  
for 'Global Dong-A'**

**Dong-A is committed to meeting global standards of corporate integrity, capability and human resource management. Our success flows from our culture and the dedication of our staff. They ensure our fairness and compassion, and are the driving force behind our remarkable growth.**

Dong-A's chairman, Shin-Ho Kang, has said that "People are the top priority of corporate management", showing the company's belief that the nurturing of talent is key to the development of innovative products and the attainment of industry leadership. Under our 'Vision 2012', Dong-A is implementing company-wide programs to foster leaders and global talents to propel our firm onto the global stage.

In the 1970s, Dong-A established the Korean pharmaceutical industry's first professional training institute, and implemented a systematic program offering education courses tailored to specific job functions. Over time, these programs have evolved with the changing demands of technology, markets and business methods. Through the institute's e-learning system, every Dong-A employee has access to practical knowledge repositories, foreign language training and assistance with MBA coursework.

Dong-A also supports its employees to develop their knowledge and expertise in pharmacy by earning MR (Medical Representative) certification, offered through the Korea Pharmaceutical Manufacturers Association. Targeting new recruits and sales representatives, we have opened a new MR campus offering our own certification program.

We have also undertaken a radical overhaul of our HR systems, aiming to improve both work efficiency and employee satisfaction. We have expanded our internship budget and implemented the use of an employee database to ensure the allocation of the most qualified manpower to particular projects. Another effective program has been our industry-academic cooperation program, which has improved the results of our on-campus recruiting efforts.

The experience in HR management that Dong-A has built up over its 77-year history will help us to achieve the tenets of 'Vision 2012', namely 'first in all' and 'creative proactiveness'. As we grow and implement the 'Global Dong-A' vision, we will rely on our management and employees to be the engines of our sustainable growth.



**Developing  
the culture of integrity  
and excellence**

Dong-A is proud of the fact that the average Dong-A employee stays with the company for 9.1 years, nearly 50 percent longer than the industry average of 6.2 years. This figure demonstrates the loyalty of the company's management and staff, and testifies to the quality of our corporate culture. Our company was highlighted as one of the '40 Best Korean Companies to Work For' in 2008, in a book of the same title published by Dong-A Ilbo, one of Korea's major dailies.

Dong-A has developed a corporate culture in which the industry's top talents enjoy a stable working environment that embodies our core values of 'mutual respect and trust', as well as 'open-mindedness', as set forth in Dong-A's 'Vision 2012'.



**Creating value for  
our local communities**

**Dong-A is committed to safety, excellence and responsibility in all its business operations. During our years of steady growth, we have remained true to our company culture of unwavering commitment to social responsibility and a clear focus on making a better tomorrow.**

Dong-A is serious about its ongoing social contributions, driven by our belief that earning trust from society is underpinned by returning a portion of our earnings to the community. Our creed “Life is the most precious value” guides our CSR activities to go beyond mere image-boosting and window dressing. In addition to distributing financial support, we foster a spirit of giving by having all employees and executives take part in volunteer work.

Our social contribution activities grow from our role as a pharmaceutical company that promotes the general health and welfare through innovation and technological excellence. We look for creative ways to reach the underprivileged and strengthen community bonds, and we tailor the scale of our CSR commitments according to the company’s current economic performance. Following these principles, we have implemented a variety of effective programs that serve as examples to other companies.

Dong-A’s contributions to academia, culture, art and sports in 2008 have included support for the Foundation operating Sangju High school in Sangju City, scholarship support for the Suseok Cultural Foundation, and volunteer help with the cleanup of the Taean Peninsula following a tragic oil spill. We sponsor the Bacchus® Cup SBS Junior Golf Team Championship, the March Across Korea, the Bacchus® Cup Chunwon (Center Point) Title, and classes for youths on environmentally-friendly lifestyles. As a company committed to respect for life, good health and happy communities, we will continue our social sharing programs until we reach our goal of happiness and health for everyone.



**2008  
CSR highlights**



**Volunteer Work**

Dong-A employees and executives join together to help their local communities whenever and wherever they are needed. We support the charitable work of Seoul’s Boramae Medical Center, providing free meals to the homeless by operating the Bappu Restaurant together with the Daily Community NGO. We joined with the National Council on Social Welfare to sponsor ‘Hope 2007 – Love Sharing Concert’. Dong-A also provided assistance to a foreign workers’ hospital on the outskirts of Seoul, and got down to work to clean up the Taean Peninsula following last year’s tragic oil spill. And, as part of their training and orientation, every new employee completes an assignment at Hyanglimwon, a care center for the physically disabled.



**Scholarship Support**

**Sangju Academy:** Part of Dong-A’s social commitment is our belief in helping underprivileged youths to grow up as responsible members of society. Education is key to this endeavor, and that is why Dong-A has been underwriting various scholarship programs at Sangju Academy in Sangju City since 1964.



**The Suseok Cultural Foundation Scholarship:**

Dong-A operates various programs to help young people develop into responsible citizens and leaders. In 1992, marking our company’s 60th anniversary, the Suseok Scholarship Association was revamped as the Suseok Cultural Foundation. Its expanded mission is to support outstanding middle school, high school and university students. Candidates are nominated by their school principals, who select students on the basis of academic performance and their suitability as peer role models. The Foundation provides extra scholarships for high school students recommended by the Korea Welfare Foundation, on the basis of their being the main breadwinners of the family. Since its foundation in 1987, the Suseok Cultural Foundation has provided support to about 1,400 students through the end of 2008.



**Medical & Pharmaceutical Industry  
Awards**

**Dong-A Medical Science Award:** Awarded each year to a medical researcher with an outstanding research and publication record, and who has shown concern for human welfare and advancement of the medical profession. Originally known as the ‘Dong-A Medical Culture Award’, the Award has been co-presented by Dong-A and the Korean Medical Association (KMA Times) since 1969, and boasts a prestigious forty-year history and tradition. The name was changed to the Dong-A Medical Science Award in 2007, when its co-presenters became Dong-A and the Suseok Cultural Foundation.

**Excellent Pharmacist Award:** Co-presented by Dong-A and the Korean Pharmaceutical Association (KPA) since 1973, the Award honors the contributions of excellent pharmacists to maintaining and improving public health. Now co-sponsored by Dong-A and the Suseok Cultural Foundation, the Award is presented annually on the anniversary of the foundation of the KPA. Individual awards are given in five categories: clinical pharmacy, KPA development, exemplary service, pharmaceutical research and social contribution.



### Culture, Arts & Sports

**March Across Korea for College Students:** 'March Across Korea with Bacchus®' is an annual walkathon that captures the adventurous spirit of youth. Each year since 1998, young participants have devoted 21 days and 20 nights to a 600-kilometer walk from one end of Korea to the other. Along the way, they enjoy presentations on traditional culture and participate in local events. As the Walkathon has gained recognition, competition for places has become intense, with over 20,000 applications being received last year. Participants have praised the program for its confidence-building qualities, and for helping to develop both their mental and physical strengths.



**Environmentally-friendly and Life-friendly Class for Youths with Dong-A:** This is a back-to-nature type of experience offered each year to 50 young participants, covering five days and four nights spent in the natural forests and coastal areas of Anmyeon Island and Taeon Peninsula. The youths learn about ecology and conservation, and more importantly, respect for nature and how to modify their behavior to protect nature and the environment.

**Marronnier Women Composition Contest:** This women-only annual event is held each year in October, Korea's cultural month, to promote creative writing and support women writers. The award is given in Marronnier Park in Seoul, and is organized by the Korean Culture and Arts Foundation and co-sponsored by Dong-A and the Suseok Cultural Foundation. There are three award categories: poetry, essay and children's literature, and the Grand Prize winner's work is recommended for publication in an Arts & Culture journal. Now in its 26th year, the contest is a rare offline contest in an age when online platforms control the vast majority of such competitions, and it is recognized as a valuable contribution to Mecenat philanthropy.

**Bacchus® Cup SBS Junior Golf Team Championship:** Dong-A inaugurated this Junior golf event in 2005 in a spirit of promoting Korea's rising status as home to many of the world's top golfers. The Bacchus® Cup SBS Junior Golf Team Championship provides a venue for scouting promising amateur youth golfers, giving them a chance to gain exposure to professional events and test their mettle. The 2008 event was held at Ora Country Club on Jeju Island on July 10 & 11.

**Bacchus® Cup Chunwon (Center Point) Title / Bacchus® Cup Korea-China Chunwon Title:** To mark the company's 50th anniversary in 1983, Dong-A created the 'Bacchus® Baduk Competition.' The aim was to contribute to the development of the baduk game industry and its culture. The competition was the first of its kind to be sponsored by a private enterprise, and was re-branded as the 'Bacchus® Cup Chunwon (Center Point) Title' in 1996, after its twelfth year. As well, the recently-inaugurated 'Bacchus® Cup Korea-China Chunwon Title' attracts the best baduk players from Korea and China each year, being held alternately in each country. The tournament has been enormously successful at raising the profile of Bacchus® in China, where baduk has been a popular game for centuries.

**Garglin® Cup Professional Women's Kuksu Title:** Launched in the 1990s as the 'Professional Women's Kuksu Title', this women-only baduk tournament ran for seven years until 2000. Dong-A resurrected the tournament in 2002, officially naming it the 'Garglin® Cup Professional Women's Kuksu Title', aiming to attract more females to this game while promoting Dong-A's flagship Garglin® brand. The competition has been organized by the Korea Economic Daily since 2002.

# FINANCIAL PERFORMANCE

## Management's discussion & analysis

The company's sales in 2008 totaled KRW 702 billion, up 10.44% from the previous year. Operating profit came to KRW 82 billion, a rise of 19.06%. The growth in operating profit derives mainly from a KRW 66 billion year-on-year gain in sales, which was also offset by a rise in Cost of Sales of just KRW 9 billion.

### SALES

Collectively, our major ethical (ETC) drugs posted annual sales growth of 25.9%, acting as the main driver of the company's revenue growth in 2008. As a share of total sales, the contribution from our portfolio of major ETC drugs rose from 50% to 57%. Increases were recorded among all major products, including Stillen<sup>®</sup> (KRW 75 billion in sales), Nicetile<sup>®</sup> (KRW 38 billion), Opalmon<sup>®</sup> (KRW 32 billion) and Plavitor<sup>®</sup> (KRW 30 billion). The number of Dong-A 'blockbuster' products, defined as those with annual sales exceeding KRW 10 billion, including OTC medicines, has risen from 11 in 2006 and 15 in 2007, to 18 in 2008.

Sales of Bacchus<sup>®</sup> rose 5.5% year-on-year to KRW 119 billion, a modest but welcome increase following recent declines. However, our OTC segment as a whole experienced a 9.3% decline in sales year-on-year, owing to a structural overhaul of the company's distribution system. Dong-A had previously allowed direct sales to pharmacies, as well as indirect sales through wholesalers. Recently, with a view toward improving the efficiency of our inventory and trade accounts receivable management, Dong-A set up a unified distribution channel using wholesalers. While we believe that this periodic decline in sales is temporary, our 2008 results reflect a sales lag caused by inventory liquidation.

Medical Equipment sales fell by KRW 24 billion in 2008, due to the winding up of unprofitable product lines. We anticipate going forward that our sales of medical equipment will remain steady.

Total export sales for 2008 reached KRW 26.1 billion, up 34.3% from the previous year. This brings the value of aggregate exports for the period from 2006 through 2008 to US\$ 51.8 million. In consideration of the time needed for the registration and approval of new pharmaceuticals by foreign regulators, we anticipate that major growth in export revenues will commence after 2010.

**Chart 1. Sales & Operating Profits Trends**

(Unit: KRW Billion)



**Table 1. Sales Trend of Major Products**

(Unit: KRW Million)

| Category                | Product                    | Indication                                  | License    | 2008           | 2007           | Growth Rate   |
|-------------------------|----------------------------|---|------------|----------------|----------------|---------------|
| ETC                     | Stillen <sup>®</sup>       | Gastric mucosal protective drug             | Original   | 74,792         | 60,223         | 24.2%         |
|                         | Nicetile <sup>®</sup>      | Dementia drug                               | License-in | 37,912         | 30,454         | 24.5%         |
|                         | Opalmon <sup>®</sup>       | Thrombolytic drug                           | License-in | 31,941         | 23,468         | 36.1%         |
|                         | Plavitor <sup>®</sup>      | Antithrombolytic drug                       | Generic    | 29,940         | 12,985         | 130.6%        |
|                         | Orodipine <sup>®</sup>     | Hypertension drug (Calcium channel blocker) | Generic    | 23,182         | 13,398         | 73.0%         |
|                         | Gaster <sup>®</sup>        | Peptic ulcer drug                           | License-in | 16,695         | 14,346         | 16.4%         |
|                         | Talion <sup>®</sup>        | Antihistamine drug                          | License-in | 15,388         | 11,910         | 29.2%         |
|                         | Growtropin <sup>®</sup>    | Human growth hormone                        | Original   | 14,440         | 14,725         | -1.9%         |
|                         | Zydena <sup>®</sup>        | Erectile dysfunction drug                   | Original   | 14,200         | 11,170         | 27.1%         |
|                         | Glimel <sup>®</sup>        | Diabetes drug                               | Generic    | 13,575         | 11,530         | 17.7%         |
|                         | Aclofer <sup>®</sup>       | Arthritis drug                              | License-in | 10,977         | 7,937          | 38.3%         |
|                         | Epocelin <sup>®</sup>      | Antibiotic drug                             | License-in | 10,863         | 11,424         | -4.9%         |
|                         | Onon <sup>®</sup>          | Asthma drug                                 | License-in | 10,851         | 9,105          | 19.2%         |
|                         | Tanatril <sup>®</sup>      | Hypertension drug (ACE Inhibitor)           | License-in | 10,203         | 9,624          | 6.0%          |
|                         | Lipinon <sup>®</sup>       | Hyperlipidemia drug                         | Generic    | 9,576          | -              | -             |
|                         | Valtrex <sup>®</sup>       | Anti-virals drug                            | License-in | 9,093          | 6,373          | 42.7%         |
| Cholesnone <sup>®</sup> | Hyperlipemia drug          | Generic                                     | 7,900      | 9,089          | -13.1%         |               |
| Suprax <sup>®</sup>     | Antibiotic drug (cefixime) | License-in                                  | 6,189      | 8,916          | -30.6%         |               |
|                         | <b>Subtotal</b>            |   |            | <b>347,717</b> | <b>266,677</b> | <b>30.4%</b>  |
| Bacchus <sup>®</sup>    | Tonic                      |   |            | <b>118,772</b> | <b>112,541</b> | <b>5.5%</b>   |
| OTC                     | Panpyrin <sup>®</sup>      | Cold medicine                               |            | 16,287         | 17,819         | -8.6%         |
|                         | Bigen <sup>®</sup>         | Hair coloring product                       |            | 15,353         | 19,024         | -19.3%        |
|                         | Garglin <sup>®</sup>       | Mouthwash                                   |            | 12,228         | 13,255         | -7.8%         |
|                         | Morning Care <sup>®</sup>  | Hangover drink                              |            | 9,549          | 8,223          | 16.1%         |
|                         | Tempo <sup>®</sup>         | Tampon                                      |            | 6,751          | 5,693          | 18.6%         |
|                         | Circulan <sup>®</sup>      | Blood circulation drug                      |            | 6,058          | 8,123          | -25.4%        |
|                         |                            | <b>Subtotal</b>                             |            |                | <b>66,226</b>  | <b>72,137</b> |
| <b>Total</b>            |                            |   |            | <b>532,715</b> | <b>451,355</b> | <b>18.0%</b>  |

Table 2. Major Export Contracts

Unit: USD Million

| Year | Month      | Country         | Company                    | Product Name         | Indication           | Type                 | Amount   | Period  |
|------|------------|-----------------|----------------------------|----------------------|----------------------|----------------------|----------|---------|
| 2006 | 10         | Middle East     | Saudi SPC                  | Zydena®              | Erectile Dysfunction | New Drug             | 30.0     | 5 Years |
|      | 12         | China           | Shanghai Mainland Pharm.   | Gonadopin®           | Infertility          | BIO                  | 15.0     | 5 Years |
|      |            | China           | Zhejiang Zhonghai Medicine | Gemcit®              | Cancer               | ETC                  | 30.0     | 5 Years |
| 2007 | 2          | China           | Shanghai Mainland Pharm.   | Stillen®             | Gastritis            | New Drug             | 20.0     | 5 Years |
|      | 3          | China           | Zhejiang Zhonghai Medicine | Epirubicin®          | Cancer               | ETC                  | 50.0     | 5 Years |
|      | 6          | Russia          | MIR Pharm                  | Gonadopin®           | Infertility          | BIO                  | 16.0     | 5 Years |
|      |            | Turkey          | Dr. FRIK                   | Gonadopin®           | Infertility          | BIO                  | 6.0      | 5 Years |
|      | 7          | Turkey          | DEM ilac                   | Gemcit®              | Cancer               | ETC                  | 16.2     | 5 Years |
|      |            |                 | DEM ilac                   | Leucostim®           | Neutropenia          | BIO                  | 20.0     | 5 Years |
|      | 8          | Ukraine         | L-Contract                 | Eporon®              | Anemia               | BIO                  | 20.0     | 5 Years |
|      |            |                 |                            | Grotropin®           | Growth Hormone       | BIO                  | 3.4      | 5 Years |
|      |            |                 |                            | Gemcit®              | Cancer               | ETC                  | 0.3      | 5 Years |
|      | 10         | Ukraine         | AllMed                     | Closerin®            | Tubercle             | ETC                  | 3.8      | 5 Years |
|      |            |                 |                            | Interferon®-α        | Tumor                | BIO                  | 2.4      | 5 Years |
|      | 10         | Russia          | OJSC                       | Zydena®              | Erectile Dysfunction | New Drug             | 50.0     | 5 Years |
| 11   | MENA       | HIKMA           | Zydena®                    | Erectile Dysfunction | New Drug             | 23.0                 | 5 Years  |         |
| 12   | CIS        | OJSC            | Zydena®                    | Erectile Dysfunction | New Drug             | 20.0                 | 5 Years  |         |
|      |            |                 | Thai                       | B.L.HUA              | Zydena®              | Erectile Dysfunction | New Drug | 15.0    |
| 2008 | 7          | Brazil          | Bergamo                    | Zydena®              | Erectile Dysfunction | New Drug             | 109.0    | 7 Years |
|      |            |                 | Columbia                   | Procaps              | Zydena®              | Erectile Dysfunction | New Drug | 28.0    |
|      | Malaysia   | Pahang Pharmacy | Zydena®                    | Erectile Dysfunction | New Drug             | 15.0                 | 7 Years  |         |
|      | Pakistan   | Matrix Pharma   | Zydena®                    | Erectile Dysfunction | New Drug             | 8.3                  | 7 Years  |         |
|      | Phillipine | Macro Pharma    | Zydena®                    | Erectile Dysfunction | New Drug             | 8.2                  | 7 Years  |         |
|      | 11         | India           | Serum Institute            | Zydena®              | Erectile Dysfunction | New Drug             | 7.9      | 7 Years |
|      |            |                 |                            | Gonadopin®           | Infertility          | BIO                  | 7.9      | 7 Years |

Chart 2. Ratio of Sales by Sector

(Unit: %)

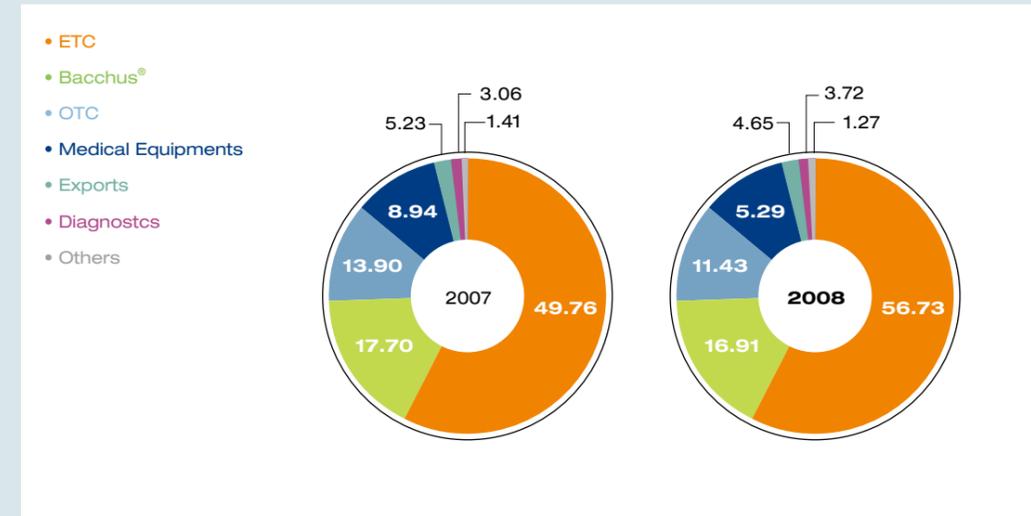


Table 3. Sales by Sector

(Unit: KRW Million)

| Category           | 2007           | Sales Ratio | YoY           | 2008           | Sales Ratio |
|--------------------|----------------|-------------|---------------|----------------|-------------|
| Bacchus®           | 112,541        | 17.70%      | 5.54%         | 118,772        | 16.91%      |
| ETC                | 316,467        | 49.76%      | 25.90%        | 398,447        | 56.73%      |
| OTC                | 88,418         | 13.90%      | -9.25%        | 80,236         | 11.43%      |
| Exports            | 19,450         | 3.06%       | 34.35%        | 26,131         | 3.72%       |
| Medical Equipments | 56,823         | 8.94%       | -42.55%       | 32,644         | 4.65%       |
| Diagnostics        | 33,248         | 5.23%       | 11.68%        | 37,132         | 5.29%       |
| Others             | 8,987          | 1.41%       | -0.36%        | 8,954          | 1.27%       |
| <b>Total</b>       | <b>635,933</b> | <b>100%</b> | <b>10.44%</b> | <b>702,316</b> | <b>100%</b> |

### COST OF GOODS SOLD

The ratio of COGS to total sales improved by 2.36%p from 39.26% in 2007 to 36.90% in 2008. The decrease came thanks to improvements in production technologies and more efficient management of production facilities. Also, 2008 saw ETC drugs, which have a relatively lower production cost, accounting for a higher proportion of total sales.

### SALES & ADMINISTRATIVE EXPENSES

Sales and administrative expenses increased by 15.17% (KRW 47.6 billion) over the previous year. The increase was mainly due to wage increases and higher R&D expenses following an increase in R&D headcount and expansion of our product pipeline. A second factor was the growth in academic expenses incurred for new product development, along with boosted spending on sales promotions. Dong-A is conscientiously trying to maximize the returns on these investments through the efficient use of all resources.

**Table 4. R&D Expenditures & Personnel**

|                                  | 2007   | 2008   | Changes |
|----------------------------------|--------|--------|---------|
| Expenditures (Unit: KRW Million) | 39,643 | 44,972 | 13.4%   |
| Personnel                        | 249    | 259    | 4.0%    |

### NON-OPERATING PROFIT & LOSS

Non-operating expenses include interest costs and losses on valuations of equity method investments. The company's annual interest expense was approximately KRW 9 billion on borrowings totaling KRW 165 billion at year-end of 2008. Dong-A recognizes losses on the valuation of certain investments in major affiliates using the equity method.

Dong-A currently incurs foreign-currency expenses of approximately KRW 30 billion for the import of raw materials. The company's export revenues, amounting to KRW 26 billion, are immediately turned around to pay for the cost of imports. Therefore, Dong-A has limited risk exposure to exchange rate fluctuations.

### CORPORATE TAX EXPENSES

The company's corporate tax rate was increased temporarily by a small increment, following the write-down of deferred corporate tax credits. The company's corporate tax rate for 2009 and beyond is expected to return to approximately 30%.

## Report of Independent Auditors

**Samil Accounting Corporation**  
www.samil.com  
Kukje Center Building 191 Hangagro 2ga,  
Yongsanku, Seoul 140-702, KOREA  
(Youngsan P.O.Box 266, 140-600)

To the Board of Directors and Shareholders of  
DONG-A PHARMACEUTICAL CO., LTD.

We have audited the accompanying balance sheets of Dong-A Pharmaceutical Co., Ltd. (the Company) as of December 31, 2008 and 2007, and the related statements of operations, appropriations of retained earnings and cash flows for the years then ended, and the statement of changes in shareholders' equity for the year ended December 31, 2008, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dong-A Pharmaceutical Co., Ltd. as of December 31, 2008 and 2007, and the results of its operations, the changes in its retained earnings, its cash flows for the years then ended and the changes in its shareholders' equity for the year ended December 31, 2008, in conformity with accounting principles generally accepted in the Republic of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, changes in shareholders' equity and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea  
March 12, 2009

This report is effective as of March 12, 2009, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**Balance Sheets**

December 31, 2008 and 2007

| (in Korean won)                                | 2008                     | 2007                     |
|--|--------------------------|--------------------------|
| <b>Assets</b>                                  |                          |                          |
| Current assets                                 |                          |                          |
| Cash and cash equivalents                      | ₩ 44,451,706,927         | ₩ 51,174,555,572         |
| Short-term Investments                         | 3,543,980,898            | 4,272,800,501            |
| Current portion of held-to-maturity securities | 47,280,000               | 28,513,500               |
| Trade accounts receivable, net                 | 122,960,095,598          | 123,731,268,819          |
| Other accounts receivable, net                 | 491,367,923              | 169,210,866              |
| Accrued income                                 | 213,744,083              | 246,491,656              |
| Advance payments                               | 1,965,537,009            | 1,413,825,401            |
| Prepaid expenses                               | 187,876,331              | 277,673,998              |
| Short-term loans receivable from employees     | 227,120,415              | 275,599,816              |
| Current currency swap assets                   | 3,477,443,211            | 455,873,966              |
| Current deferred income tax assets             | 6,132,392,379            | 7,558,174,903            |
| Inventories, net                               | 109,005,436,077          | 94,723,946,678           |
| <b>Total current assets</b>                    | <b>292,703,980,851</b>   | <b>284,327,935,676</b>   |
| Long-term Investments                          | 345,500,000              | 397,500,000              |
| Available-for-sale securities                  | 4,970,233,276            | 3,732,287,334            |
| Held-to-maturity securities                    | 289,584,400              | 198,217,900              |
| Equity-method investments                      | 108,499,070,847          | 108,719,921,968          |
| Properties investment                          | 1,700,000,000            | 1,700,000,000            |
| Guarantee deposits                             | 14,928,861,162           | 13,023,270,466           |
| Long-term other accounts receivables           | 1,324,610,383            | 1,033,174,695            |
| Deferred income tax assets                     | 18,447,276,172           | 16,790,811,799           |
| Currency swap assets                           | -                        | 184,287,223              |
| Property, plant and equipment, net             | 285,795,554,089          | 238,021,437,671          |
| Intangible assets, net                         | 2,610,015,360            | 2,839,176,438            |
| <b>Total assets</b>                            | <b>₩ 731,614,686,540</b> | <b>₩ 670,968,021,170</b> |

| (in Korean won)                             | 2008                   | 2007                   |
|---|------------------------|------------------------|
| <b>Liabilities and Shareholders' Equity</b> |                        |                        |
| Current liabilities                         |                        |                        |
| Trade accounts payable                      | ₩ 29,900,569,536       | ₩ 32,430,896,272       |
| Short-term borrowings                       | 77,251,489,908         | 31,552,291,368         |
| Income taxes payable                        | 15,219,938,240         | 28,926,690,792         |
| Current portion of long-term borrowings     | 33,579,913,607         | 23,429,533,115         |
| Current portion of debentures               | 23,000,000,000         | 32,000,000,000         |
| Other accounts payable                      | 35,978,343,852         | 38,752,343,577         |
| Advances receipts                           | 182,360,682            | 70,537,500             |
| Accrued expenses                            | 503,059,620            | 396,712,361            |
| Withholdings                                | 14,512,523,308         | 11,564,314,549         |
| VAT payable                                 | 7,947,747,584          | 7,920,572,579          |
| Allowance for returned goods                | 10,054,804,811         | 8,949,122,952          |
| Current currency swap liabilities           | 1,002,817,300          | 195,044,156            |
| <b>Total current liabilities</b>            | <b>249,133,568,448</b> | <b>216,188,059,221</b> |
| Long-term borrowings, net                   | 24,324,112,620         | 30,470,224,911         |
| Debentures                                  | 10,000,000,000         | 10,000,000,000         |
| Exchange bonds, net                         | 67,272,108,904         | 62,810,666,098         |
| Accrued severance benefits, net             | 24,220,154,708         | 19,007,711,372         |
| Rental deposits received                    | 5,900,487,000          | 4,515,808,000          |
| Currency swap liabilities                   | 553,748,372            | 29,676,487             |
| <b>Total liabilities</b>                    | <b>381,404,180,052</b> | <b>343,022,146,089</b> |

Commitments and contingencies

| (in Korean won)  | 2008              | 2007              |
|--|-------------------|-------------------|
| Shareholders' equity                                   |                   |                   |
| Capital stock  |                   |                   |
| Common stock   | ₩ 51,265,000,000  | ₩ 50,255,000,000  |
| Capital surplus  |                   |                   |
| Paid-in capital in excess of par value                 | 28,848,335,467    | 28,848,335,467    |
| Other capital surplus                                  | 79,131,989,176    | 79,721,859,472    |
| Capital adjustments                                    |                   |                   |
| Treasury stock   | (27,710,361,340)  | (13,812,116,386)  |
| Accumulated other comprehensive income and expense     |                   |                   |
| Gain on valuation of available-for-sale securities     | 86,981,943        | 1,171,437,329     |
| Loss on valuation of available-for-sale securities     | (18,932,648)      | (125,221,947)     |
| Change in equity from equity method                    | 6,967,023,197     | 4,643,521,488     |
| Gain on valuation of currency swap                     | 26,321,210        | 78,878,612        |
| Loss on valuation of currency swap                     | (1,236,405,349)   | (224,720,643)     |
| Retained earnings                                      |                   |                   |
| Legal reserve  | 10,235,000,000    | 10,911,000,000    |
| Discretionary reserve                                  | 158,422,733,335   | 167,492,733,334   |
| Unappropriated retained earnings (accumulated deficit) | 44,192,821,497    | (1,014,831,645)   |
| Total shareholders' equity                             | 350,210,506,488   | 327,945,875,081   |
| Total liabilities and shareholders' equity             | ₩ 731,614,686,540 | ₩ 670,968,021,170 |

## Statements of Operations

December 31, 2008 and 2007

| (in Korean won)                            | 2008              | 2007              |
|--|-------------------|-------------------|
| <b>Sales</b>                               | ₩ 702,315,777,392 | ₩ 635,933,662,329 |
| Finished goods sales                       | 560,739,315       | 481,026,471       |
| Merchandise sales                          | 128,840,294       | 148,495,739       |
| Raw materials sales                        | 10,075,137        | 6,310,808         |
| Commission revenue                         | 2,661,031         | 100,644           |
| <b>Cost of sales</b>                       |                   |                   |
| Cost of finished goods sales               |                   |                   |
| Inventory, beginning                       | 14,439,627,129    | 11,190,333,314    |
| Manufacturing cost                         | 183,879,913,540   | 158,004,527,211   |
| Transfer to other accounts                 | (268,813,825)     | (372,419,105)     |
| Inventory, ending                          | (18,152,455,812)  | (14,439,627,129)  |
|  | 179,898,271,032   | 154,382,814,291   |
| Cost of merchandise sales                  |                   |                   |
| Inventory beginning                        | 43,794,483,838    | 39,684,933,951    |
| Purchase                                   | 69,813,696,217    | 94,671,507,578    |
| Transfer to other accounts                 | (2,162,194,187)   | (217,937,724)     |
| Inventory, ending                          | (38,717,356,195)  | (43,794,483,838)  |
|  | 72,728,629,673    | 90,344,019,967    |
| Cost of raw materials sales                | 6,559,001,040     | 4,950,615,135     |
|  | 259,185,901,745   | 249,677,449,393   |
| Gross income                               | 443,129,875,647   | 386,256,212,936   |
| <b>Selling and administrative expenses</b> |                   |                   |
| Salaries                                   | 81,766,338,281    | 74,013,347,304    |
| Support for research                       | 65,226,874,415    | 54,171,067,129    |
| Advertisement                              | 36,294,538,161    | 36,343,130,465    |
| Ordinary development expenses              | 34,217,358,633    | 28,846,820,998    |
| Sales promotion                            | 44,257,456,386    | 24,891,859,966    |
| Outside service fees                       | 18,577,222,424    | 17,133,437,326    |
| Commissions                                | 12,246,991,332    | 13,397,166,289    |
| Travel                                     | 10,684,120,226    | 9,064,952,714     |
| Provision for severance benefits           | 10,235,286,453    | 7,685,181,123     |
| Bad debt expenses                          | 2,158,859,051     | 7,241,021,276     |
| Employee benefits                          | 7,312,795,590     | 5,672,156,612     |
| Depreciation                               | 6,315,981,583     | 5,436,688,091     |
| Taxes and dues                             | 4,501,710,745     | 4,287,981,597     |
| Transportation                             | 4,375,639,425     | 4,070,258,982     |
| Training                                   | 2,998,900,283     | 3,943,209,117     |
| Research expense                           | 4,112,275,143     | 3,218,121,656     |
| Entertainment                              | 2,104,791,704     | 1,867,683,690     |
| Package                                    | 1,858,786,422     | 1,797,273,993     |

| (in Korean won)  | 2008            | 2007            |
|--|-----------------|-----------------|
| Books and printing   | 1,548,910,652   | 1,508,801,783   |
| Public relation expense  | 1,603,949,093   | 1,435,464,545   |
| Export expense   | 2,440,633,946   | 1,403,466,297   |
| Supplies   | 980,384,108     | 1,222,776,640   |
| Amortization of intangible assets                              | 1,156,066,903   | 1,035,554,801   |
| Rent   | 777,149,797     | 1,012,784,269   |
| Vehicle maintenance  | 1,041,412,470   | 870,007,021     |
| Utilities  | 633,856,210     | 546,854,234     |
| Communication  | 558,862,370     | 529,721,785     |
| Repairs and maintenance  | 667,830,767     | 517,002,436     |
| Insurance  | 280,584,551     | 394,494,684     |
| Others   | 486,668,532     | 248,968,724     |
|  | 361,422,235,656 | 313,807,255,547 |
| Operating income   | 81,707,639,991  | 72,448,957,389  |
| <b>Non-operating income</b>                                    |                 |                 |
| Interest income  | 2,936,946,333   | 3,468,754,658   |
| Dividend income  | 29,603,250      | 29,410,750      |
| Rental income  | 649,484,020     | 485,935,969     |
| Commission income  | 457,714,064     | 3,952,087,505   |
| Compensation for research                                      | 1,880,000,000   | 701,499,345     |
| Gain on foreign currency transactions                          | 3,459,685,426   | 768,658,560     |
| Gain on foreign currency translation                           | 2,364,305,512   | 134,249,802     |
| Gain on disposal of equity-method investments                  | -               | 558,399,983     |
| Gain on disposal of property, plant and equipment              | 662,576,681     | 153,360,092     |
| Gain on disposal of Intangible assets                          | -               | 5,582,267       |
| Gain on valuation of equity-method investments                 | 1,668,087,010   | 4,438,275,998   |
| Gain on valuation of currency swap contracts                   | 3,448,164,146   | 346,516,020     |
| Gain on transactions of currency swap contracts                | 13,360,477,740  | -               |
| Recovery of impairment Losses on available-for-sale securities | 563,633,000     | -               |
| Others   | 1,534,774,416   | 3,070,293,582   |
|  | 33,015,451,598  | 18,113,024,531  |

| (in Korean won)                                   | 2008             | 2007              |
|---|------------------|-------------------|
| <b>Non-operating expenses</b>                     |                  |                   |
| Interest expense                                  | 13,136,178,354   | 11,270,672,491    |
| Loss on foreign currency transactions             | 14,921,017,760   | 340,350,389       |
| Loss on foreign currency translation              | 4,359,524,463    | 637,005,978       |
| Loss on disposal of property, plant and equipment | 1,625,054,002    | 1,205,270,342     |
| Loss on disposal of intangible assets             | 32,836,929       | -                 |
| Donations   | 3,871,382,743    | 4,191,268,820     |
| Loss on valuation of equity-method investments    | 3,971,948,691    | 1,080,638,879     |
| Additional payment of taxes                       | -                | 6,554,883,927     |
| Impairment loss on equity securities              | 172,452,177      | 3,994,151,412     |
| Impairment loss on investments                    | -                | 4,616,085,790     |
| Loss on disposal of trade accounts receivable     | 253,835,974      | 200,639,743       |
| Loss on valuation of currency swap contracts      | 62,619,000       | -                 |
| Loss on transactions of currency swap contracts   | -                | 448,727,442       |
| Expenses on exchangeable bonds                    | 343,274,612      | -                 |
| Others  | 965,797,877      | 6,083,474,010     |
|   | 43,715,922,582   | 40,623,169,223    |
| Income before income tax expenses                 | 71,007,169,007   | 49,938,812,697    |
| Income tax expenses                               | 27,631,976,164   | 53,010,969,650    |
| Net income(loss)                                  | ₩ 43,375,192,843 | ₩ (3,072,156,953) |
| <b>Per share data</b>                             |                  |                   |
| Basic earnings (loss) per share                   | ₩ 4,600          | ₩ (331)           |
| Diluted earnings (loss) per share                 | ₩ 4,597          | -                 |

## Statements of Appropriations of Retained Earnings

December 31, 2008 and 2007

| (in Korean won)   | 2008                 | 2007                 |
|---|----------------------|----------------------|
| <b>Retained earnings before appropriations<br/>(accumulated deficit before disposition)</b> |                      |                      |
| Unappropriated retained earnings carried over from prior year                               | ₩ 182,918,354        | ₩ 2,400,025,599      |
| Cumulative effect in accounting changes   | -                    | (342,700,291)        |
| Dividends on exchangeable bonds   | 634,710,300          | -                    |
| Net income(loss)  | 43,375,192,843       | (3,072,156,953)      |
|   | 44,192,821,497       | (1,014,831,645)      |
| <b>Transfer from discretionary reserve</b>  |                      |                      |
| Reserve for research and human resource development   | 2,000,000,002        | 3,499,999,999        |
| Other discretionary reserve   | -                    | 7,000,000,000        |
|   | 2,000,000,002        | 10,499,999,999       |
| <b>Appropriations of retained earnings</b>  |                      |                      |
| Dividends   |                      |                      |
| Cash dividends  | 7,578,980,250        | 7,538,250,000        |
| Stock dividends   | 1,015,000,000        | 1,010,000,000        |
| Legal reserve   | 760,000,000          | 754,000,000          |
| Discretionary reserve   | 36,300,000,000       | -                    |
|   | 45,653,980,250       | 9,302,250,000        |
| <b>Unappropriated retained earnings carried forward to subsequent year</b>                  | <b>₩ 538,841,249</b> | <b>₩ 182,918,354</b> |

## Statements of Changes in Shareholder's Equity

December 31, 2008 and 2007

| (in Korean won)                                       | Capital stock    | Capital surplus   | Capital adjustments | Accumulated other comprehensive income and | Retained earnings | Total             |
|---|------------------|-------------------|---------------------|--|-------------------|-------------------|
| <b>Balances as of January 1, 2007</b>                 | ₩ 49,345,000,000 | ₩ 114,829,252,199 | ₩ (20,477,548,170)  | ₩ (13,056,378,177)                         | ₩ 186,911,729,480 | ₩ 317,552,055,332 |
| Cumulative effect in accounting change                |                  | (15,664,573,067)  |                     | 16,006,130,166                             | 1,257,719,162     | 1,599,276,261     |
| <b>Adjusted retained earning</b>                      |                  |                   |                     |  | 188,169,448,642   | 319,151,331,593   |
| Cash dividends  | -                | -                 | -                   | -  | (6,798,390,000)   | (6,798,390,000)   |
| Stock dividends                                       | 910,000,000      | -                 | -                   | -  | (910,000,000)     | -                 |
| <b>Retained earning after appropriation</b>           |                  |                   |                     |  | 180,461,058,642   | 312,352,941,593   |
| Disposal of treasury stock                            | -                | 2,004,862,764     | 1,426,464,050       | -  | -                 | 3,431,326,814     |
| Gain on valuation of available-for-sale securities    | -                | -                 | -                   | 693,934,081                                | -                 | 693,934,081       |
| Loss on valuation of available-for-sale securities    | -                | -                 | -                   | 2,111,611,121                              | -                 | 2,111,611,121     |
| Change in equity from equity method                   | -                | -                 | -                   | 59,475,058                                 | -                 | 59,475,058        |
| Gain on valuation of currency swap                    | -                | -                 | -                   | (47,637,100)                               | -                 | (47,637,100)      |
| Loss on valuation of currency swap                    | -                | -                 | -                   | (223,240,310)                              | -                 | (223,240,310)     |
| Issuance of exchange bond                             | -                | 7,400,653,043     | 5,238,967,734       | -  | -                 | 12,639,620,777    |
| Net loss  | -                | -                 | -                   | -  | (3,072,156,953)   | (3,072,156,953)   |
| <b>Balances as of December 31, 2007</b>               | ₩ 50,255,000,000 | ₩ 108,570,194,939 | ₩ (13,812,116,386)  | ₩ 5,543,894,839                            | ₩ 177,388,901,689 | ₩ 327,945,875,081 |
| <b>Balances as of January 1, 2008</b>                 | ₩ 50,255,000,000 | ₩ 124,234,768,006 | ₩ (13,812,116,386)  | ₩ (10,462,235,327)                         | ₩ 177,731,601,980 | ₩ 327,947,018,273 |
| Cumulative effect in accounting change                |                  | (15,664,573,067)  |                     | 16,006,130,166                             | (342,700,291)     | (1,143,192)       |
| <b>Adjusted retained earning</b>                      |                  |                   |                     |  | 177,388,901,689   | 327,945,875,081   |
| Cash dividends  | -                | -                 | -                   | -  | (7,538,250,000)   | (7,538,250,000)   |
| Stock dividends                                       | 1,010,000,000    | -                 | -                   | -  | (1,010,000,000)   | -                 |
| <b>Retained earning after appropriation</b>           |                  |                   |                     |  | 168,840,651,689   | 320,407,625,081   |
| Deferred income tax effect on reserve for revaluation | -                | (337,038,777)     | -                   | -  | -                 | (337,038,777)     |
| Acquisition of treasury stock                         | -                | -                 | (18,835,921,140)    | -  | -                 | (18,835,921,140)  |
| Disposal of treasury stock                            | -                | (242,628,635)     | 4,937,676,186       | -  | -                 | 4,695,047,551     |
| Capital surplus adjustments of equity method          | -                | (10,202,884)      | -                   | -  | -                 | (10,202,884)      |
| Gain on valuation of available-for-sale securities    | -                | -                 | -                   | (1,084,455,386)                            | -                 | (1,084,455,386)   |
| Loss on valuation of available-for-sale securities    | -                | -                 | -                   | 106,289,299                                | -                 | 106,289,299       |
| Change in equity from equity method                   | -                | -                 | -                   | 2,323,501,709                              | -                 | 2,323,501,709     |
| Gain on valuation of currency swap                    | -                | -                 | -                   | (52,557,402)                               | -                 | (52,557,402)      |
| Loss on valuation of currency swap                    | -                | -                 | -                   | (1,011,684,706)                            | -                 | (1,011,684,706)   |
| Dividends on exchangeable bonds                       | -                | -                 | -                   | -  | 634,710,300       | 634,710,300       |
| Net income  | -                | -                 | -                   | -  | 43,375,192,843    | 43,375,192,843    |
| <b>Balances as of December 31, 2008</b>               | ₩ 51,265,000,000 | ₩ 107,980,324,643 | ₩ (27,710,361,340)  | ₩ 5,824,988,353                            | ₩ 212,850,554,832 | ₩ 350,210,506,488 |

## Statements of Cash Flows

December 31, 2008 and 2007

| (in Korean won)  | 2008             | 2007              |
|--|------------------|-------------------|
| <b>Cash flows from operating activities</b>                                      |                  |                   |
| Net income (loss)  | ₩ 43,375,192,843 | ₩ (3,072,156,953) |
| Adjustments to reconcile net income to net cash provided by operating activities |                  |                   |
| Bad debt expenses  | 2,158,859,051    | 7,241,021,276     |
| Loss on valuation of equity-method investments                                   | 3,971,948,691    | 1,080,638,879     |
| Depreciation   | 17,964,399,117   | 15,300,204,184    |
| Amortization of intangible assets  | 1,156,066,903    | 1,035,554,801     |
| Impairment loss on available-for-sale securities                                 | 172,452,177      | 3,994,151,412     |
| Loss on disposal of property, plant and equipment                                | 1,205,054,002    | 1,205,270,342     |
| Loss on disposal of intangible assets  | 32,836,929       | -                 |
| rent   | 20,000,000       | -                 |
| ordinary development   | 324,775,317      | -                 |
| Loss on foreign currency translation   | 3,787,986,164    | 346,516,020       |
| Salaries paid with treasury stock  | 4,603,016,000    | 4,191,792,000     |
| Provision for severance benefits   | 16,199,021,823   | 12,847,045,844    |
| Loss on valuation of currency swap contracts                                     | 62,619,000       | -                 |
| Loss on transactions of currency swap contracts                                  | -                | 448,727,443       |
| Research expenses  | -                | 34,448,448        |
| Expenses of exchangeable bonds   | 4,804,717,418    | 2,321,014,201     |
| Impairment loss on investments   | -                | 4,616,085,790     |
| Gain on disposal of equity-method investments                                    | -                | (558,399,983)     |
| Gain on disposal of property, plant and equipment                                | (662,576,681)    | (153,360,092)     |
| Gain on disposal of intangible assets  | -                | (5,582,267)       |
| Gain on foreign currency translation   | (293,695,444)    | -                 |
| Gain on valuation of equity-method investments                                   | (1,668,087,010)  | (4,438,275,998)   |
| Gain on valuation of currency swap contracts                                     | (3,448,164,146)  | (346,516,020)     |
| Recovery of impairment losses on available-for-sale securities                   | (563,633,000)    | -                 |
| Others   | 110,632,201      | 197,000,000       |
|  | 49,938,228,512   | 49,357,336,280    |
| Changes in operating assets and liabilities                                      |                  |                   |
| Increase in trade accounts receivable  | (1,345,819,036)  | (4,274,241,833)   |
| Increase (decrease) in other accounts receivable                                 | (322,157,057)    | 498,274,720       |
| Decrease in accrued income   | 32,747,573       | 84,675,697        |
| Increase in inventories  | (14,281,489,399) | (12,294,059,494)  |
| Increase (decrease) in advance payments  | (551,711,608)    | 31,804,921        |
| Decrease (increase) in prepaid expenses  | 89,797,667       | (100,767,904)     |
| Decrease (increase) in deferred income tax assets                                | 2,018,357,724    | (18,263,881,464)  |
| Decrease (increase) in trade accounts payable                                    | (2,618,320,104)  | 4,477,753,757     |
| Decrease (increase) in other accounts payable                                    | (2,773,999,725)  | 16,288,709,817    |
| Increase (decrease) in advance receipts  | 111,823,182      | (141,075,000)     |
| Increase in withholdings   | 2,948,208,759    | 2,575,285,715     |
| Increase (decrease) in accrued expenses  | 106,347,259      | (40,803,921)      |
| Decrease (increase) in income taxes payable                                      | (13,706,752,552) | 18,736,267,352    |
| Increase (decrease) in VAT payable   | 27,175,005       | (429,062,540)     |
| Increase in allowance for returned goods   | 1,105,681,859    | 2,061,696,792     |

| (in Korean won)   | 2008             | 2007             |
|---|------------------|------------------|
| Payment of severance benefits                               | (5,453,544,007)  | (10,643,451,314) |
| Increase in severance insurance deposits                    | (5,590,953,264)  | (3,353,449,463)  |
| Decrease in contribution to National Pension Fund           | 27,736,700       | 109,551,000      |
| Dividends from equity method investments                    | 112,900,000      | 207,900,000      |
|   | (40,063,971,024) | (4,468,873,162)  |
| Net cash provided by operating activities                   | 53,249,450,331   | 41,816,306,165   |
| <b>Cash flows from investing activities</b>                 |                  |                  |
| Disposal of held-to-maturity securities                     | ₩ 29,157,000     | ₩ 199,217,000    |
| Decrease in short-term investments                          | 6,682,800,501    | 7,670,262,663    |
| Collection of long-term loans                               | -                | 557,760,000      |
| Collection of short-term loans receivable from employees    | 48,479,401       | 919,226,696      |
| Collection of guarantee deposits                            | 969,392,019      | 598,010,000      |
| Disposal of property, plant and equipment                   | 3,189,254,042    | 627,609,124      |
| Disposal of intangible assets                               | -                | 6,000,000        |
| Acquisition of short-term financial instruments             | (4,677,980,898)  | (6,427,014,884)  |
| Acquisition of long-term financial instruments              | (1,224,000,000)  | (372,700,000)    |
| Acquisition of available-for-sale securities                | (3,764,771,010)  | -                |
| Acquisition of held-to-maturity securities                  | (139,290,000)    | (32,019,400)     |
| Acquisition of equity-method investments                    | (50,485,800)     | (100,000,000)    |
| Payment for guarantee deposits                              | (2,874,982,715)  | (4,848,503,808)  |
| Increase in short-term loans receivable from employees      | -                | (792,737,481)    |
| Acquisition of property, plant and equipment                | (69,955,235,332) | (55,591,627,304) |
| Acquisition of intangible assets                            | (899,979,754)    | (809,325,009)    |
| Settlement of currency swap contracts                       | -                | (1,986,998,893)  |
| Net cash used in investing activities                       | (72,667,642,546) | (60,382,841,296) |
| <b>Cash flows from financing activities</b>                 |                  |                  |
| Proceeds from short-term borrowings                         | 80,699,198,540   | 7,381,972,717    |
| Proceeds from rental deposits received                      | 1,484,086,000    | 301,340,000      |
| Issuance of debentures                                      | -                | 10,000,000,000   |
| Increase in current portion of debentures                   | 23,000,000,000   | 15,000,000,000   |
| Proceeds from long-term borrowings                          | 24,000,000,000   | 30,000,000,000   |
| Proceeds from exchange bonds                                | -                | 69,664,274,502   |
| Payment of short-term borrowings                            | (35,000,000,000) | -                |
| Repayment of current portion of long-term borrowings        | (23,000,000,000) | (48,211,788,869) |
| Repayment of current portion of debentures                  | (32,000,000,000) | (50,000,000,000) |
| Repayment of rental deposits received                       | (99,407,000)     | -                |
| Payment of cash dividends                                   | (7,538,250,000)  | (6,798,390,000)  |
| Repayment of long-term borrowings                           | (14,362,830)     | (13,636,500)     |
| Acquisition of treasury stock                               | (18,835,921,140) | -                |
| Net cash provided by (used in) financing activities         | 12,695,343,570   | 27,323,771,850   |
| Net increase in cash and cash equivalents                   | (6,722,848,645)  | 8,757,236,719    |
| <b>Net decrease (increase) in cash and cash equivalents</b> |                  |                  |
| Beginning of year   | 51,174,555,572   | 42,417,318,853   |
| End of year   | ₩ 44,451,706,927 | ₩ 51,174,555,572 |

## Dong-A Socio Group

### Dong-A Pharmaceutical Co., Ltd.

#### • Dong-A Otsuka Co., Ltd.

One of Korea's major beverage companies, producing multi-million won sellers like Pocari Sweat®, Black Bean Tera-tea®, Oran-C®, and Demi Soda®

Date of Establishment: 1979

Address: 252, Yongdu-dong, Dongdaemun-gu, Seoul, Korea

Phone: +82-2-2170-7714

#### • Yongma Logis Co., Ltd.

Operator of a nationwide transportation, distribution and warehouse network with an advanced logistics information system

Date of Establishment: 1983

Address: 249-1, Yongdu-dong, Dongdaemun-gu, Seoul, Korea

Phone: +82-2-3290-6380

#### • Sooseok Co., Ltd.

Manufacturer of bottles of Bacchus® and PEM CAP

Date of Establishment: 1968 (Founded as Jungang Glass Industry Inc.)

Address: 620-5 Bakdal 2-dong, Manan-gu, Anyang, Gyeonggi-do, Korea

Phone: +82-31-449-6151-4

#### • Korea Shinto Co., Ltd.

Manufacturer of machines for casting, surface treatment, and pollution prevention

Date of Establishment: 1970

Address: 434-5 Moknae-dong, Danwon-gu, Anyang, Gyeonggi-do, Korea

Phone: +82-31-491-8121-4

#### • DA Information Co., Ltd.

Provider of total IT solutions for Dong-A Pharmaceutical

Date of Establishment: 2006

Address: 249-1, Yongdu-dong, Dongdaemun-gu, Seoul, Korea

Phone: +82-2-920-8713

#### • Dong-A America Corp.

Distributor of Bacchus® and OTC products in North America

Date of Establishment: 1991

Address: 17215 Studebaker Road, Suite#335, Cerritos, CA 90703, USA

Phone: +1-562-860-3153

#### • Dong-A Pharmtech Co., Ltd.

Manager for clinical trials and licensing procedures for Zyderna® in the US and elsewhere

Date of Establishment: 1992

Address: 154-8 Samsung-dong, Kangnam-gu, Seoul, Korea

Phone: +82-2-560-8000

## Board of Directors



#### Inside Director

**Dr. Kim, Won-Bae**

Chief Executive Officer and  
Chairman of the Board

**Kang, Jung-Seok**

Executive Vice-President and  
Chief Operating Officer

**Park, Chan-II**

Executive Director and  
Head of Development & Licensing

#### Affiliated Director

**Yoo, Chung-Sik**

Director

#### Outside Director

**Dr. Kwon, Sung-Won, M.D.**

Director

Professor of Urology, College of Medicine,  
Pochon Cha University

**Kang, Kyoung-Bo, CPA**

Director

Certified Public Accountant,  
Daehyun Accounting & Tax Firm

**Dr. Seo, Young-Ger**

Director

Professor and Dean of Pharmacy,  
Seoul National University

## Global Network

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