

Management Discussion and Analysis

管理層討論及分析

BUSINESS REVIEW

1. Production & Sales Operation

For the year ended 31 December 2006, each of the Group's products in terms of production volume and sales volume recorded a growth over the corresponding period of last year. During 2006, a total of 717 tones of bulk medicines were produced, equivalent to an increase of 22.5% compared with the corresponding period of last year. Sales of bulk medicines achieved 543.9 tones, equivalent to an increase of 44.5% compared with the corresponding period of last year. A total of 154,320,000 vials of cephalosporin powder for injections were produced and sales of cephalosporin powder for injections achieved 149,290,000 vials, both figures were almost equivalent to those of last year. A total of 18,050,000 boxes of generic drugs (system specialty drugs) were produced, equivalent to an increase of 61.5% compared with the corresponding period of last year. Sales of generic drugs (system specialty drugs) achieved 17,770,000 boxes, equivalent to an increase of 59.1% compared with the corresponding period of last year. Export trading continued to grow rapidly, the export sales increased from RMB39,506,000 in year 2005 to RMB73,396,000, equivalent to an increase of 85.8% compared with the corresponding period of last year.

2. Development of New Products

In 2006, the Group obtained 29 production permits for 15 species of products from the State Food and Drug Administration (SFDA) of the PRC. There were 10 certificates of new pharmaceutical products granted for anti-allergic bulk medicine "Levocetirizine Dihydrochloride", anti-infective bulk medicine "Cefepime Dihydrochloride", anti-infective powder for injection "Cefepime Dihydrochloride for Injection" (totally in 3 strengths), endocrine system specialty drug "Metformin Hydrochloride Sustained-release Tablets", cardiovascular system specialty drug "Telmisartan Bulk Medicine and Tablets" and digestive system specialty drug "Famotidine, Calcium Carbonate and Magnesium Hydroxide Chewable Tablets". The Group also received 7 clinical trials permits and study of production technique and quality research and/or clinical research of 56 projects were completed and have been submitted for registration. There are 5 new projects including 2 cephalosporin products and 3 traditional Chinese medicines, in which 2 are for cardiovascular system and 1 is for antiviral.

3. Honourable Recognitions

In May 2006, Suzhou Dawnrays Chemical Co., Ltd. has successfully passed the examination and attestation on Quality Management System ISO9001:2000, Environmental Management System ISO14001:2004 and Occupational Health and Safety Management System OHSAS18001:1999 as conducted by American Quality Assessors International, LLC (AQA International, LLC), an accredited organization in the United States, and has been awarded with Certificate of Assessment.

In June 2006, Ceftazidime Sterile bulk medicine, a product of the Group, was endorsed by Jiangsu Science and Technology Department as a project under the Torch Plan in Jiangsu Province.

In August 2006, Suzhou Dawnrays Pharmaceutical Co. Ltd. was granted the title of Suzhou Quality Control Award 2006 by Suzhou Quality Award Examination Commission (蘇州市質量獎審定委員會)。

業務回顧

1. 生產銷售概況

本集團截至二零零六年十二月三十一日止各產品的產量及銷量均較二零零五年增長。本年內生產原料藥717噸，較上年增長22.5%，銷售原料藥543.9噸，較上年增長44.5%；生產粉針劑15,432萬瓶；銷售粉針劑14,929萬瓶，生產與銷售基本與上年度持平；生產仿製藥(專科用藥)1,805萬盒，較上年增長61.5%，銷售仿製藥(專科用藥)1,777萬盒，較上年增長59.1%。出口業務繼續迅速增長，出口額由二零零五年的人民幣3,950.6萬元，上升至人民幣7,339.6萬元，增長85.8%。

2. 新產品情況

二零零六年全年共有15個品種獲得國家食品藥品監督管理局批准生產，獲得生產批件29個，獲新藥證書10個。獲新藥證書的品種分別為抗過敏原料藥「鹽酸左西替利嗪」、抗感染原料藥「鹽酸頭孢吡肟」。抗感染粉針劑「注射用鹽酸頭孢吡肟」（共三個規格）、內分泌系統專科用藥「鹽酸二甲雙胍緩釋片」、心血管系統專科用藥「替米沙坦原料和片劑」及消化系統專科用藥「法莫替丁鈣鎂咀嚼片」；獲臨床批件7個；完成工藝、質量研究和/或臨床研究並註冊申報的項目有56個；新立項項目5個，分別為2個頭孢類品種，3個中藥品種，其中2個心血管系統藥物，1個抗病毒藥物。

3. 二零零六年獲得之榮譽

蘇州東瑞化工有限公司於二零零六年五月順利通過了美國AQA認證機構對公司ISO9001：2000質量管理體系，ISO14001：2004環境管理體系，OHSAS18001：1999職業健康安全管理体系的認證審核並取得認證證書。

於二零零六年六月，本集團產品頭孢他啉原料被江蘇省科技廳列入江蘇省火炬計劃專案。

於二零零六年八月經蘇州市質量獎審定委員會審定，蘇州東瑞製藥有限公司榮獲二零零六年蘇州市質量管理獎稱號。

Management Discussion and Analysis

管理層討論及分析

4. Construction Projects for the Expansion of Production Facilities

Suzhou Dawnrays Pharmaceutical Co. Ltd. completed the project of diverting the waste water into clean and dirty flow channels.

Suzhou Dawnrays Pharmaceutical Co. Ltd. is carrying on the initial planning of building two new workshops according to the international standards.

Suzhou Dawnrays Pharmaceutical Co. Ltd's workshop for cephalosporin oral-preparations in solid-dosage-form passed the attestation of Good Manufacturing Practice ("GMP").

Suzhou Dawnrays Chemical Co. Ltd's optimization plan for production technology relating to waste water integrated treatment project has been completed and it is inviting contractors to tender for the project.

4. 擴充生產設施專案建設

蘇州東瑞製藥有限公司完成廢水清汙分流工程。

蘇州東瑞製藥有限公司按國際標準新建二個車間的專案正在進行初步設計。

蘇州東瑞製藥有限公司口服頭孢類固型劑車間通過藥品生產質量管理規範認證。

蘇州東瑞化工有限公司污水綜合處理專案已完成工藝方案優化，正在進行項目總承包招標。

PROSPECTS

By virtue of the wealth and advantages in current product portfolio of the third generation cephalosporin and generic drugs (system specialty drugs), sales network and channels, the Group will actively exploit new market, open up new marketing channels and strive to increase market share. The Group will adjust the product portfolio by developing new products' sales, launching new bulk medicines and enhancing the sales of high gross profit margin products which are anticipated a substantial growth will sustain continuously in 2007. Meanwhile, the production technique improvement of existing bulk medicines became effective and will further reduce production cost. All aforementioned factors served as the stable sources of cash inflow for the Group in 2007. The Company will also set up new organizational structure, exploit new profitable business model, aggressively expand international markets and strengthen international projects cooperation.

FINANCIAL REVIEW

SALES AND GROSS PROFIT

For the year ended 31 December 2006, the Group has achieved the revenue of approximately RMB788,797,000, equivalent to an increase of 7.5% compared with the corresponding period of last year. The main reason for the increase of revenue was the approximate 44.5% growth of the sales quantity of bulk medicines by a total of approximate 168 tones as compared with the corresponding period of last year. In addition, the sales of generic drugs (system specialty drugs) increased by 59.1% as compared with the corresponding period of last year.

Gross profit was approximately RMB184,009,000, equivalent to a decline of 14.5% compared with the corresponding period of last year. Gross profit margin was decreased by 6% to 23.3% (2005: 29.3%). The main reasons for a decline in gross profit margin are as follows: firstly, the increased input to improve current production technique affected the production cost; secondly, in response to the mandatory order of the retail price-cut on antibiotics by the National Development and Reform Commission of the PRC, the Group voluntarily carried the effect of lowering the ex-factory price of cephalosporin powder for injections to sustain its market share.

展望

憑藉現有三代頭孢及仿製藥(專科用藥)產品結構、銷售網路和管道等資源優勢，積極拓展新市場、開發新管道，力爭取得更大的市場份額。本集團將調整產品結構，開發新產品銷售，爭取原料藥新品種上市，擴大高毛利品種的銷售，預計二零零七年將繼續保持較大的增長。同時現有原料產品的工藝改進已經初見成效，能夠進一步降低生產成本。以上均為本集團在二零零七年穩定的現金來源基礎。本公司也將建立新的組織結構，開發新的贏利模式，積極開拓國際市場，加強國際專案合作。

財務回顧

銷售及毛利

截至二零零六年十二月三十一日止，本集團全年營業額約人民幣788,797,000元，比去年同期增長7.5%，主要是原料藥銷售數量較去年同期增長約44.5%，增加了約168噸；仿製藥(專科用藥)銷售數量較去年同期增長約59.1%。

毛利額約人民幣184,009,000元，比去年同期減少14.5%。毛利率為23.3%，較去年同期的29.3%降低了6%。毛利率下跌的主要原因如下：一是現有生產工藝的研發投入增加影響了生產成本；二是為了配合中國國家發展改革委員會的抗生素零售價格降低，本集團主動降低頭孢菌素粉針劑的出廠銷售單價以維繫市場份額。

Management Discussion and Analysis

管理層討論及分析

For the year ended 31 December 2006, sales of bulk medicines increased by 20.1% to RMB455,987,000 as compared with RMB379,605,000 of the corresponding period of last year. Sales of bulk medicines accounted for 57.8% of total sales (2005: 51.7%). Gross profit margin of bulk medicines was approximately 14.4% (2005: 21.6%).

Sales of powder for injections decreased by 15.7% to RMB244,120,000 as compared with RMB289,666,500 of the corresponding period of last year. Sales of powder for injections accounted for 31.0% of the total sales (2005: 39.5%). Gross profit margin of powder for injections was approximately 20.1% (2005: 29.1%).

Sales of generic drugs (system specialty drugs) increased by 37.0% to RMB88,690,000 as compared with RMB64,731,000 of the corresponding period of last year. Sales of generic drugs (system specialty drugs) accounted for 11.2% of the total sales (2005: 8.8%). Gross profit margin of the generic drugs (system specialty drugs) was 78.2% (2005: 75.3%).

In 2006, the export sales increased by 85.8% to RMB73,396,000 as compared with RMB39,505,900 of the corresponding period of last year.

截至二零零六年十二月三十一日止，原料藥實現銷售收入人民幣455,987,000元，較上年的人民幣379,605,000元增長20.1%。原料藥佔總銷售額的比重為57.8%（二零零五年：51.7%）。原料藥毛利率約14.4%（二零零五年：21.6%）。

粉針劑實現銷售收入人民幣244,120,000元，較上年的人民幣289,666,500元減少15.7%。粉針劑佔總銷售額的比重為31.0%（二零零五年：39.5%）。粉針劑毛利率約20.1%（二零零五年：29.1%）。

仿製藥（專科用藥）的銷售為人民幣88,690,000元，較上年的人民幣64,731,000元增長37.0%，仿製藥（專科用藥）佔總銷售額的比重為11.2%（二零零五年：8.8%）。仿製藥（專科用藥）的毛利率約78.2%（二零零五年：75.3%）。

於二零零六年，出口銷售額由上年的人民幣39,505,900元上升至本年的人民幣73,396,000元，增長85.8%。

Table of Turnover Analysis 營業額分析

Product	產品	Turnover (RMB'000)		Sales Breakdown (%)		Gross Profit Margin (%)	
		營業額 (人民幣千元)		銷售比例 (%)		毛利率 (%)	
		2006	2005	2006	2005	2006	2005
		二零零六年	二零零五年	二零零六年	二零零五年	二零零六年	二零零五年
Bulk Medicines	原料藥	455,987	379,605	57.8	51.7	14.4	21.6
Powder for Injections	粉針劑	244,120	289,666	31.0	39.5	20.1	29.1
Generic Drugs (System Specific Medicines)	仿製藥 (專科用藥)	88,690	64,731	11.2	8.8	78.2	75.3
Overall	總體	788,797	734,002	100.0	100.0	23.3	29.3

EXPENSES

During the year 2006, the Group continued to implement expenses budgeting to monitor the expenditure before and in the course of the business in order to maintain the expenses to sales ratio at low level.

The total expenses incurred during the year 2006 were approximately RMB117,635,000, equivalent to an increase of 5.7% compared with the corresponding period of last year. Total expenses as a percentage of turnover was 14.9% (2005: 15.2%), of which, selling and distribution costs amounted to RMB53,669,000, equivalent to a decline of 1% compared with the corresponding period of last year. Selling and distribution costs as a percentage of turnover was 6.8% (2005: 7.4%).

Administrative expenses and other operating expenses amounted to RMB62,990,000, equivalent to an increase of 10.9% compared with the corresponding period of last year. The administrative expenses and other operating expenses as a percentage of turnover was 8.0% (2005: 7.7%).

費用

於二零零六年，本集團繼續實施費用預算管理，對費用進行事前和事中控制，使費用率維持在較低的水平。

年內，費用約共人民幣117,635,000元，較上年增加5.7%。佔營業額的比例為14.9%（二零零五年：15.2%），其中，銷售及分銷費用人民幣53,669,000元，較上年減少1%。佔營業額的比例為6.8%（二零零五年：7.4%）。

行政費用及其他經營費用共人民幣62,990,000元，較上年增長10.9%。佔營業額的比例為8.0%（二零零五年：7.7%）。

Management Discussion and Analysis

管理層討論及分析

NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

For the year ended 31 December 2006, net profit attributable to equity holders amounted to RMB65,781,000, equivalent to a decline of 37.7% compared with the corresponding period of last year. The reasons for the decline in profit were mainly due to the decline in gross profit margin and an increase in other expenses.

ANALYSIS ON THE RETURN ON ASSETS

As at 31 December 2006, net assets of the Group were approximately RMB513,047,000. Net return on net assets, which is defined as the net profit attributable to equity holders divided by net assets, was 12.8% (2005: 21.6%). The turnover days for trade and notes receivables was approximately 121 days. The turnover days for inventory was approximately 87 days.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group held cash and cash equivalents of approximately RMB44,023,000 (as at 31 December 2005: RMB51,948,000). The inventories amounted to RMB134,597,000 (as at 31 December 2005: RMB159,836,000). The trade receivables was RMB138,909,000 (as at 31 December 2005: RMB147,663,000). The notes receivables was RMB149,983,000 (as at 31 December 2005: RMB91,842,000). The trade and notes payables amounted to RMB201,242,000 (as at 31 December 2005: RMB204,260,000). The Group had bank advances for discounted bills with recourse, amounted to RMB25,351,000 (as at 31 December 2005: RMB17,626,000).

As at 31 December 2006, the Group had no borrowings except the bank advances for discounted bills, the debt ratio (defined as bank advances for discounted bills over total assets) of the Group was 3.3% (as at 31 December 2005: 2.4%).

As at 31 December 2006, the Group had aggregate bank facilities of approximately RMB463,400,000 (as at 31 December 2005: RMB450,000,000).

During the year, the net cash inflow from operating activities was approximately RMB50,613,000 (as at 31 December 2005: RMB52,115,000). Net cash outflow from investing activities was approximately RMB15,269,000 (as at 31 December 2005: RMB65,467,000). Net cash outflow from financing activities was approximately RMB43,206,000 (as at 31 December 2005: RMB32,555,000). As at 31 December 2006, the Group held cash and cash equivalents of approximately RMB44,023,000.

As at 31 December 2006, the Group's capital commitments amounted to approximately RMB43,865,000 (as at 31 December 2005: RMB37,759,000), which mainly derived from the new bulk medicine workshop for oral cephalosporin products, land purchase expenditures and environmental protection projects, etc. The Group has sufficient financial and internal resources to bear the capital expenditure.

Save for investments in subsidiaries, during the period, the Group had no significant external investments or material acquisitions or disposal of subsidiaries and associated companies.

權益持有人應佔淨溢利

截至二零零六年十二月三十一日止，權益持有人應佔淨溢利約人民幣65,781,000元，比去年同期減少37.7%。利潤減少主要是來自毛利率的降低和其他費用的增加。

資產盈利能力分析

截至二零零六年十二月三十一日止，本集團的淨資產約人民幣513,047,000元，淨資產收益率(界定為權益持有人應佔淨溢利除以淨資產)為12.8%(二零零五年：21.6%)。應收貿易及票據款周轉日數約121日，存貨周轉日數約87日。

流動資金及財政資源

截至二零零六年十二月三十一日止，本集團持有現金及現金等價物約人民幣44,023,000元(於二零零五年十二月三十一日：人民幣51,948,000元)。存貨佔用資金為人民幣134,597,000元(於二零零五年十二月三十一日：人民幣159,836,000元)。應收貿易款為人民幣138,909,000元(於二零零五年十二月三十一日：人民幣147,663,000元)，應收票據款為人民幣149,983,000元(於二零零五年十二月三十一日：人民幣91,842,000元)。應付貿易及票據款項為人民幣201,242,000元(於二零零五年十二月三十一日：人民幣204,260,000元)，本集團的銀行貼現票據墊款為人民幣25,351,000元(於二零零五年十二月三十一日：人民幣17,626,000元)。

於二零零六年十二月三十一日，除銀行貼現票據墊款，本集團並無其他貸款，本集團之負債比率(界定為銀行貼現票據墊款除以資產總值)為3.3%(於二零零五年十二月三十一日：2.4%)。

於二零零六年十二月三十一日，本集團可動用的銀行信貸總額約人民幣463,400,000元(於二零零五年十二月三十一日：人民幣450,000,000元)。

年內，經營活動的現金流入淨額約人民幣50,613,000元(於二零零五年十二月三十一日：人民幣52,115,000元)；用作投資活動的現金流出淨額約人民幣15,269,000元(於二零零五年十二月三十一日：人民幣65,467,000元)；用作融資活動的現金流出淨額約人民幣43,206,000元(於二零零五年十二月三十一日：人民幣32,555,000元)；本集團於二零零六年十二月三十一日的現金及現金等價物約人民幣44,023,000元。

於二零零六年十二月三十一日，本集團的資本開支承擔共約人民幣43,865,000元(於二零零五年十二月三十一日：人民幣37,759,000元)，主要涉及口服頭孢原料藥車間的建設、購買土地的支出及環境保護專案等方面。本集團有充足的財政資源和內部資源足以支付其資本開支。

除投資附屬公司外，於本期間，本集團並無對外作出重大投資、購入或出售附屬公司及聯營公司。

Management Discussion and Analysis

管理層討論及分析

FOREIGN EXCHANGE AND TREASURY POLICIES

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

SEGMENTAL INFORMATION

The Group's turnover and profit were mainly derived from the sale of medicines by the Mainland China subsidiaries to customers in the Mainland China. The principal assets employed by the Group are located in the PRC. Accordingly, no segment analysis by business and geographical segments is provided.

STAFF AND REMUNERATION POLICY

As at 31 December 2006, the Group employed approximately 1,501 employees and the total remuneration was approximately RMB46,567,000 (2005: RMB47,441,000). The Group regards human resources as the most valuable assets and truly understands the importance of attracting and retaining high-performance employees. The remuneration policy is generally based on the references of market salary index and individual qualifications. The Group provides its employees with other fringe benefits, including defined contribution retirement schemes, share option scheme and medical coverage. The Group also offers some of its employees stationed in the PRC with dormitory accommodation.

CHARGE ON ASSETS

As at 31 December 2006, no asset of the Company was pledged to banks to obtain credit facilities (as at 31 December 2005: Nil).

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no material contingent liabilities (as at 31 December 2005: Nil).

PLANS FOR SIGNIFICANT INVESTMENTS AND EXPECTED SOURCE OF FUNDING

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

外幣及庫務政策

由於本集團大部份業務交易、資產及負債均主要以人民幣結算，故本集團所承受的外匯風險不大。本集團的庫務政策為只會在外匯風險（如有）對本集團有潛在重大影響時進行管理。本集團將繼續監察其外匯狀況，並於有需要時以外匯遠期合約對沖外匯風險。

分類資料

本集團的營業額及溢利主要來自中國大陸附屬公司向中國大陸的客戶銷售藥物。本集團的主要資產均位於中國大陸。因此，並無提供業務及地區分類分析。

僱員及薪酬政策

於二零零六年十二月三十一日，本集團約有1,501名僱員，年內員工費用總額約為人民幣46,567,000元（二零零五年：人民幣47,441,000元）。本集團視人力資源為最寶貴的財富，深明吸納及挽留表現稱職的員工的重要性。薪酬政策一般參考市場水平及個別員工的資歷而定。本集團為員工提供的其他福利包括定額供款退休計劃、購股權計劃及醫療福利。本集團並在中國為其若干中國的僱員提供宿舍。

資產抵押

於二零零六年十二月三十一日，本公司無任何資產押給銀行，以取得信貸額度（於二零零五年十二月三十一日：無）。

或有負債

於二零零六年十二月三十一日，本集團並無重大或有負債（於二零零五年十二月三十一日：無）。

未來重大投資及預期融資來源

除於上述「流動資金及財政資源」一節所載有關資本開支承擔所披露者外，本集團並無任何未來重大投資計劃或購入資本資產計劃。