

## **RESULTS**

In 2006, the Group's turnover and net profit amounted to HK\$3,538.8 million and HK\$15.7 million, representing an increase of 11% and a decrease of 90%, respectively.

The Board of Directors does not recommend the payment of final dividend for the year ended December 31, 2006.

## **BUSINESS REVIEW AND OUTLOOK**

### **Vitamin C Series**

Total sales volume of the major products of this series for the year amounted to 24,975 tonnes, a decrease of 4% over the previous year. Product prices were under pressure during the year due to overcapacity. Average price of vitamin C for the year was US\$2.80 per kg, down 13.6% from US\$3.24 in the previous year. Gross profit margin of the entire series decreased from 25.6% in the previous year to 13.5% in the current year.

With the product prices staying a low level, all manufacturers are not producing in full capacity. Product prices have rebounded recently and it is expected that the performance of this division will be able to improve.

### **Penicillin Series**

Total sales volume of the major products of this series for the year amounted to 8,567 tonnes, an increase of 81% over the previous year. Product prices remained at low level for the past few years with the persisting market consolidation. Average prices of major products, namely penicillin industrial salt, amoxicillin and 6-APA, for the year were US\$10.01, US\$22.20 and US\$20.92 per kg respectively, slightly higher than those of the previous year. Production costs decreased as a result of the increased utilization of the production lines in Inner Mongolia. Gross profit margin of the entire series increased from 6.9% in the previous year to 15.7% in the current year.

After a long period of market consolidation, product prices began to return to an upward trend in the fourth quarter of 2006. It is expected that the market condition will continue to improve.

### **Cephalosporin Series**

Total sales volume of the major products of this series for the year amounted to 1,104 tonnes, a decrease of 5% over the previous year. With a substantial increase in market supply, there was a sharp decline in the product prices during the year. Average price of 7-ACA for the year was US\$75.25 per kg, a decrease of 18.9% as compared with US\$ 92.82 per kg in the previous year. Gross profit margin of the entire series decreased from 24.4 % in the previous year to 13.5% in the current year.

After rounds of price reductions, there was a slight rebound of the product prices recently. It is expected that the performance of this division will be able to stabilise.

**Finished Drugs**

As a result of fierce market competition, the profitability of this division further declined. Even though sales revenue for the year increased 13% to HK\$1,256 million, operating profits recorded a significant drop of 50.6% to HK\$31.21 million.

Market competition is expected to remain fierce. With a view to establishing a new driver of growth, the Group will put more efforts to develop the vitamin C health supplement market in the PRC while continuing to strive for growth in the generic drugs.

**Patent Drug**

The patent drug, butylphthalide, which was launched to the market last year, recorded a gradual growth in sales during the year. As market build-up work was still in its early stage, this business still recorded a loss in the current year.

In order to speed up the development of the drug in overseas markets, the Group entered into a license agreement with an overseas pharmaceutical company during the year. Pursuant to the agreement, the overseas pharmaceutical company is responsible for applying overseas accreditation for the drug and developing markets in America and Europe. The Group will receive milestone payments and royalties according to the progress of the overseas accreditation application and future sales.

**FINANCIAL REVIEW****Liquidity and Financial Position**

In 2006, the Group's operating activities generated a net cash inflow of HK\$230,818,000. Capital expenditure amounted to HK\$241,010,000. At December 31, 2006, the Group's current ratio was 1.0, slightly lower than 1.1 at the end of the previous year. Debtor turnover period (ratio of the total of trade receivables and bills receivable balance to sales, inclusive of value added tax for sales in the PRC) was 55 days as compared with 51 days in the previous year. The inventory turnover period (ratio of inventories balance to cost of sales) decreased to 85 days from 110 days in the previous year.

At December 31, 2006, the Group had total borrowings of HK\$1,608,493,000 (comprising bank loans of HK\$1,529,000,000 and loans from ultimate holding company and a fellow subsidiary of HK\$79,493,000). The maturity profile of the total borrowings spreads over a period of three years with HK\$752,000,000 repayable within one year and the remaining HK\$856,493,000 repayable between two to three years. Net gearing ratio was 46%, which was calculated on the basis of the Group's total borrowings net of bank balances and cash of HK\$391,509,000 over shareholders' equity at the balance sheet date.

41% of the Group's borrowings are denominated in Hong Kong dollars and the remaining 59% in Renminbi. The Group's revenues are either in Renminbi or in US dollars. The Group is of the opinion that its exposure to foreign exchange rate fluctuations is limited.

**Pledge of Assets**

At the balance sheet date, bank deposits of HK\$4,104,000 were pledged to banks to secure banking facilities granted to the Group.

**Contingent Liabilities**

As disclosed in the Company's press announcement dated February 22, 2005, the Company and one of its subsidiary are named as, among others, defendants in certain antitrust complaints filed in the United States of America. These antitrust complaints have alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volume of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the antitrust laws in the United States. It is alleged in the antitrust complaints that the purchasers of vitamin C in the United States paid more for vitamin C than they would have paid in the absence of the alleged conspiracy and, therefore, suffered losses. The plaintiffs (purportedly as representatives of classes of similar plaintiffs) seek treble unspecified damages and other relief. Subsequent to the above-mentioned press announcement, there were some other complaints with the same nature as the above-mentioned antitrust complaints filed in the United States. Up to the date of this report, three of the antitrust complaints have been served on the Company and the subsidiary.

The directors and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Group has appointed legal advisers to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be estimated with certainty at this stage.

**EMPLOYEES**

At the balance sheet date, the Group had about 9,855 permanent employees and the majority of them were employed in the PRC. The Group offers competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

**ACKNOWLEDGEMENT**

On behalf of the Board of Directors, I would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during this year.

By order of the Board  
**CAI DONGCHEN**  
*Chairman*

Hong Kong, April 11, 2007