上海復旦張江生物醫藥股份有限公司

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 8231)

09 Annual Report

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This report, for which the directors (the "Directors") of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

EXECUTIVE DIRECTORS

Wang Hai Bo *(Chairman)*
Su Yong
Zhao Da Jun

NON-EXECUTIVE DIRECTORS

Fang Jing
Zhou Jie
Guo Jun Yu
Hao Hong Quan
Zhu Ke Qin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pan Fei
Cheng Lin
Weng De Zhang

SUPERVISORS

Zhu Zu Shun
Bao Qi
Zhang Man Juan
Guo Yi Cheng
Xu Qing

LEGAL REPRESENTATIVE

Wang Hai Bo

COMPANY SECRETARY

Wang Rui, FCCA

COMPLIANCE OFFICER

Zhao Da Jun

AUTHORISED REPRESENTATIVES

Zhao Da Jun
Wang Rui, FCCA

AUDIT COMMITTEE

Pan Fei *(Chairman)*
Weng De Zhang *(Vice Chairman)*
Cheng Lin

REMUNERATION COMMITTEE

Cheng Lin *(Chairman)*
Pan Fei
Weng De Zhang
Zhou Jie
Fang Jing

Corporate Information

INTERNATIONAL AND STATUTORY AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Zhong Tian
CPAs Limited Company

LEGAL ADVISERS TO THE COMPANY

Baker & Mckenzie (As to Hong Kong Law)
Fangda Partners (As to PRC Law)

PRINCIPAL BANKERS

Shanghai Pudong Development Bank, Lujiazui Branch
Industrial and Commercial Bank of China,
Zhangjiang Sub-branch
Bank of China, Zhangjiang Sub-branch

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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Services Limited
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183 Queen's Road East, Hong Kong

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Zhangjiang Hi-Tech Park
Pudong Shanghai 201210, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

15/F The bank of East Asia Building
10 Des Voeux Road Central, Hong Kong

AUTHORISED REPRESENTATIVE TO ACCEPT SERVICE OF PROCESS AND NOTICES

ONC Lawyers
15/F The bank of East Asia Building
10 Des Voeux Road Central, Hong Kong

LISTING INFORMATION

H Share
The Growth Enterprise Market of The Stock Exchange
of Hong Kong Limited
Stock Code: 8231

WEBSITE

www.fd-zj.com

Financial Data Highlight

RESULTS

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Turnover	**61,905**	31,990
Operating loss	**(5,050)**	(21,647)
Finance costs	**(2,545)**	(1,483)
Loss before income tax	**(7,595)**	(23,130)
Income tax expense	**(879)**	(1,069)
Loss for the year	**(8,474)**	(24,199)
Loss attributable to shareholders of the Company	**(7,320)**	(23,402)
Minority interests	**(1,154)**	(797)
Total comprehensive loss for the year	**(7,515)**	(25,158)
Total comprehensive loss attributable to shareholders of the Company	**(6,438)**	(24,284)
Minority interests	**(1,077)**	(874)
Basic and diluted loss per share for loss attributable to the shareholders of the Company (RMB)	**(0.0103)**	(0.0330)

ASSETS AND LIABILITIES

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Total assets	**298,831**	158,452
Total liabilities	**130,463**	82,569
	168,368	75,883
Capital and reserves attributable to shareholders of the Company	**135,689**	73,587
Minority interests	**32,679**	2,296
	168,368	75,883

Chairman's Statement

On behalf of the board of directors (the "Board") of the Company, I present the annual report of the Company together with its subsidiaries (collectively as "the Group") for the year ended 31 December 2009 for consideration by the shareholders.

BUSINESS REVIEW

Aiming to become a pioneer in the bio-pharmaceutical industry, the Group commits to its mission "the more we explore, the healthier human beings will be". Our foundation is the technology of genetic engineering, drug delivery and photodynamic drug development. Our core position would be R&D of drugs with patents and commercialization of drugs specific for the Chinese market as.

Research and Development

During the period under review, the Group made an ideal progress in R&D of drugs.

Clinical trial phase III for Hemoporfin (海姆泊芬), a photodynamic new drug for the treatment of Port Wine Stain has been completed, and application for the New Drug Certificate will be made soon.

Duteroporphyrin (多替泊芬), a photodynamic drug, and Vincristine Liposome Injection (長春新鹼脂質體注射劑), both for the treatment of tumors, were approved to enter into clinical study in February, 2009.

Pre-clinical study for rhTNFR***(m)***:Fc(High bio-activity recombinant human TNF receptor 2-Fc fusion protein mutant 高活性重組人腫瘤壞死因子受體突變體-Fc融合蛋白) for the treatment of arthritis has been completed, and application for clinical study is about to be submitted. Application for a PCT patent for the project has been made.

The Group's Nifeviroc (尼非韋羅) for the treatment of AIDS is in the process of clinical trial phase II. The Group made an announcement on 16 April 2007 regarding a collaboration and license agreement with an Australian company on the overseas patent right of the project and the related technology, so as to enable an internationalized R&D on the project and its related technology. In 2008, the scale of the collaboration was changed and enlarged. The Australian company proposed termination of the agreement recently, according to which, the contingent milestone payments as stipulated by the original agreement might or might not be realized, depending on the progress and success of the development of the compounds which were initially selected for collaboration. However, this would not have any impact on the clinical study of the project that is carried out by the Group in mainland China. Meanwhile, the Group will continue looking for other opportunities of international collaboration on this project.

The Group has been taking the R&D of innovative drugs as its fundamental. By the end of year 2009, the progress of R&D on the major drugs is summarized as following:

Technical platform	Project name	Indications	Progress
Genetic Engineering Drugs	Recombinant tissue type plasminogen activator (r-tPA)	Heart infarction	Technique transferred, drug registration issued, royalty payment received
	Recombinant human parathyroid hormone derivatives (rhPTH)	Osteoporosis	Clinical study terminated
	Recombinant human lymphotoxin α-derivatives (rhLT)	Tumor	Clinical trial phase II
	Recombinant human interleukin-1 receptor antagonist (rhIL-1Ra)	Arthritis	Clinical study terminated
	Recombinant human tumor necrosis recipient Fc fusion protein (Etanercept)	Arthritis	Domestic and overseas rights transferred respectively, Clinical study completed, and rights of royalty retained
	rhTNFR*(m)*:Fc (High bio-activity recombinant human TNF receptor 2-Fc fusion protein mutant (高親和力重組人腫瘤壞死因子受體突變體-Fc融合蛋白)	Arthritis	Pre-Clinical study completed
Photodynamic therapy drugs	ALA (艾拉®, 鹽酸氨酮戊酸)	Condyloma acuminata	Launched for sale, accredited as Shanghai Hi-Tech Result Transfer Project, also accredited as "State Hi-tech Development Project" by NDRC
	ALA (艾拉®, 鹽酸氨酮戊酸)	New Indication	Clinical study cooperated with hospitals
	Hemoporfin (海姆泊芬)	Port wine stain	Clinical trial phase III completed
	Duteroporphyrin (多替泊芬)	Tumors	Approved to enter into clinical study

Technical platform	Project name	Indications	Progress
Liposome drugs	Libod® (里葆多® Doxorubicin liposome Injection, 鹽酸多柔比星脂質體注射劑)	Tumors	Launched for sale
	Vincristine Liposome Injection (長春新鹼脂質體注射劑)	Tumors	Approved to enter into clinical study
Others	Beixi (Down's Syndrome Antenatal Screening Diagnostic Reagent, 唐氏綜合症產前篩查試劑)	Down's Syndrome	Launched for sale, accredited as Shanghai Hi-Tech Transfer Project and National Torch Plan Project
	HLA Genotyping Chips (HLA基因芯片)	Genotyping	Launched for sale
	Mulberry Root Alkaloid Tablets (桑根鹼片)	Diabetes	Transferred, rights of royalty retained
	Tasteless sugar Tablets (淡糖片)	Diabetes	Clinical trial phase I, cooperated with other company
	Nifeviroc (尼非韋羅)	AIDS	Clinical trial phase II

Note: Projects which have been transferred with no subsequent interests retained by the Group are not included in the above

Intellectual Property Rights

The Group has been actively protecting its intellectual property rights (IPR) on its innovative medicines and research results. During the period under review, the Group applied for 6 invention patents, and granted 4 invention patents. By the end of year 2009, the Group applied for 56 invention patents in aggregate, and obtained 21 invention patents.

Commercialization

During the period under review, the Group made satisfactory results on commercialization. Revenue from product sales increased by 80% than that of last year.

ALA (艾拉®) which is used for the treatment of dermal HPV infectious disease and proliferative disease as represented by condyloma acuminate, has attracted high level of attention from dermatologists all over the country since the launch for sale. Sales revenue of the product has been increasingly steadily. The product has become one of the largest consumed skin-cure drugs. Sales revenue of the product in 2009 more than doubled over last year. It's expected that there will be more significant increase in the future.

Libod® (里葆多®) for the treatment of tumors, launched for sale in August 2009. The Group signed an exclusive distribution agreement with Nanjing Medical Co., Ltd. ("Nanjing Medical") in April 2009, to offer the exclusive distribution rights of the product to Nanjing Medical for the coming five years. Nanjing Medical made a payment of RMB20,000,000 to the Group in July 2009 as the consideration of the distribution rights. Though the product was listed in market for a short time, the favorable market response was obvious. The bigger contribution to the sales revenue for the Group is expected in future.

Recombinant tissue type plasminogen activator (r-tPA), which was transferred to an enterprise in Shandong in year 2002, was launched in year 2008. The Group received a royalty payment which is at a certain percentage of the revenue from sales according to the contract.

Grants and Awards

The Group has always been complying with the industrial policies of the State and improving its capacity of developing new drugs. During the period under review, the Group obtained the following grants and awards for a number of R&D and commercialization projects:

The Group obtained a grant of RMB8,200,000 from the Key National S&T Program, "Major New Drug Development", for its project "Development of the Incubator for the Targeting Anti-tumor Innovative Drugs".

The Group obtained a grant of RMB7,500,000 from the Key National S&T Program, "Major New Drug Development", for its project "Key Technique of the Big Scale Culture of Mammal Cells and Medical Product Preparation".

A grant of RMB8,200,000 has been offered to the new drug Nifeviroc (尼非韋羅) for the treatment of AIDS for its clinical study by The Ministry of Science and Technology of the PRC.

ALA (艾拉®) received "Shanghai Innovation Product Certificate" from the municipal government.

A grant of RMB2,000,000 for commercialization has been given to Libod® (里葆多®), by the Science and Technology Committee of Shanghai Municipality.

FUTURE PROSPECTS

The Group has been taking the innovative R&D of new drugs as its core positioning since its establishment, and has attained certain achievements. The published "Summary of the State Medium-long-term Scientific and Technology Development Plan (year 2006-2020)" has confirmed the direction of China's special way of self innovation, and has also affirmed to support those enterprises encouraged to become technologically innovative bodies. It calls for creating further conditions, optimizing environment, deepening reforms, and truly strengthening the dynamics and motives of enterprise technological innovation. Within this broad environment, the Group will certainly obtain more and better development opportunities.

After more than a decade of R&D for new drugs, the Group has a large number of projects which are at the crucial time of being commercialized. Therefore, the Group is now undergoing the process of conversion from a pure R&D body to a combination of R&D and commercialization. In the future, the Group will collect its resources in both aspects of R&D and commercialization.

R&D

Over the past years, the Group accumulated extensive experience in R&D, and took a leading position in the pharmaceutical industry in the PRC. The Group has established very close cooperative relationships with Shanghai Institute of Life Science of the Chinese Academy of Sciences, Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences and Shanghai Institute of Medical Materials of the Chinese Academy of Sciences. All are regarded as the reputable domestic institutions. At the same time, the Group also made further collaboration with other international and domestic R&D institutes. In the future, the Group will continue to devote efforts to the R&D of projects with proprietary intellectual property rights.

R&D of the Group will still be focused on genetic engineering drugs, photodynamic drugs, and liposome drugs. In particular, among these sectors, drugs for the treatment of dermal diseases and tumors will be of the most importance.

Genetic Engineering Drugs

The pre-clinical study of rhTNFR***(m)***:Fc (High bio-activity recombinant human TNF receptor 2-Fc fusion protein mutant 高親和力重組人腫瘤壞死因子受體突變體-Fc融合蛋白) has been completed and the application for the clinical trial will be submitted soon. The drug is used to treat self-immunological diseases, such as arthritis. The market size is enormous. The product holds an IPR and its PCT has been applied. It is one of the key R&D projects of the Group

Recombinant human lymphotoxin α -derivatives (rhLT) has entered the clinical trial phase II. The product has an IPR and its PCT has been applied. It is one of the key R&D projects of the Group.

Photodynamic Drugs

New photodynamic drug for the treatment of condyloma acuminate, ALA (艾拉®) has been launched to the market. New indications, such as cervical diseases infected by HPV and acne, are under development. It is one of the key R&D projects of the Group.

The clinical trial phase III of the photodynamic drug for the treatment of port wine stain, hemoporfin (海姆泊芬), has been completed. The clinical trial permission for the anti-tumor drug, duteroporphyrin (多替泊芬) was issued. Together with ALA, the Group has set up a unique bunch of photodynamic drugs with IPRs.

Liposome Drugs

Vincristine Liposome Injection (長春新鹼脂質體注射劑) to for the treatment of cancer has been permitted for clinical trial. Further clinical study will be carried out. A large market share of the drug is expected. It is one of the key R&D projects of the Group.

Commercialization

To keep in line with the key direction of R&D, the Group has gradually enhanced commercialization of the drugs for the treatment of dermal diseases and tumors from year 2007. The Group has arranged relevant drug product lines on both directions, and will steadily launch the products to the market by stages in the next few years, so as to form a product series package on the following two directions:

Dermal disease drugs

In respect of the commercialization of dermal disease drugs, the photodynamic new drug ALA (艾拉®) for the treatment of condyloma acuminata has been been granted for launch for sales. This is the first drug commercialized in this aspect. Condyloma acuminata is one of the most common sexual contagious diseases in the modern society, with morbidity of 20%-31%, ranking No. 2 or 3, of all the venereal disease patients. According to the estimations of WHO in 2005, there were actually 16 million to 20 million new venereal disease cases in China every year, while the number of new patients suffering condyloma acuminata was expected to be 3 million to 6 million every year. It can be seen that this drug has a tremendous market capacity. New indications will be developed for ALA (艾拉®), such as HPV induced CIN (cervical intraepithelial neoplasia) and acne, to enhance the sales size. It is expected that the revenue of the sales of the drug will still increased extensively and continuously. The following hemoporfin will be commercialized to treat port wine stain and the clinical trial phase III has been completed.

Tumor treatment drugs

In respect of commercialization of drugs for the treatment of tumors, Libod®, (里葆多®), was launched to market in August 2009. It is the first drug commercialized in the same cluster of the drugs of the Group. The drug is used for the treatment of tumors such as AIDS-relating Kaposi's sarcoma, breast cancer and ovarian cancer, which has become No. 1 disease in female tumor morbidity. According to the estimations of WHO, in year 2005, there were approximately 7.6 million people died due to various cancers in the world. 500,000 people died due to breast cancer. According to the estimations, there are approximately 200,000 new cases of breast cancer in the PRC every year. The market capacity of the drug is tremendous. It is estimated that more revenue will be gained since year 2010.

The feasibility study for the registration of Libod® (里葆多®) in the US and the EU market is carried out. The plan to launch the product in overseas market is also made. If the plan is successfully proceeded, even bigger revenue of the sale of the drug is expected.

Subsequent drugs include Vincristine Liposome Injection (長春新鹼脂質體注射劑) and lymphotoxin α-derivatives (淋巴毒素 α-衍生物). Approval of clinical study has been issued for Vincristine Liposome Injection for the treatment of malignant tumors, while lymphotoxin α-derivatives (淋巴毒素 α-衍生物) for the treatment of tumors have entered into the phase II of the clinical study.

The estimated schedule for the launching the drugs in the next few years is as following:

Name of drugs	Indications	Estimated launching time*
ALA (艾拉®, 鹽酸氨酮戊酸)	Condyloma acuminata	Launched
Libod® (Doxorubicin Liposome Injection, 里葆多®, 鹽酸多柔比星脂質體注射劑)	Tumors	Launched
Hemoporfin (海姆泊芬)	Port wine stain	2011
Vincristine Liposome Injection (長春新鹼脂質體注射劑)	Tumors	2013
lymphotoxin α -derivatives (淋巴毒素 α-衍生物)	Tumors	2015

* *The estimated launch time is based on the progress, and there is no assurance of its accuracy. If other drugs are progressing more successfully, they may replace any of the above drugs for market launch and sale.*

Chairman's Statement

Considering that more drugs are going to be registered, the subsidiary of the Group Taizhou Pharmaceutical has invested to construct the production lines. More production lines will be invested and constructed in Taizhou Pharmaceutical in the next several years so as to turn it into the main production base of the Group.

In the area of commercialization, the Group has realized production and sales on diagnostic reagents, ALA, and anti-tumor drug, Libod. The sales revenue for the year 2009 has made significant increase over last year. As more products are launched to the market, it is expected that the future sales revenue will be increasing extensively. The Group has successfully accomplished the transformation from a pure R&D body to a combination of R&D and commercialization. An intact system of R&D, production, sales and marketing combined orderly has been formed. The Group will be able to progress to a better development stage.

ACKNOWLEDGEMENT

Lastly, I would like to take this opportunity to express my gratitude to the shareholders and business partners of the Group for all their unreserved support and encouragement. I would also like to express my most sincere thanks to all the Directors and all the staff of the Group for their dedication and contribution.

Wang Hai Bo
Chairman

Shanghai, the PRC
23 March, 2010

FINANCIAL REVIEW

The following discussion and analysis of the Group's financial and operational position should be read in conjunction with the consolidated financial statements and the related notes to the consolidated financial statements.

TURNOVER

The Group's consolidated turnover for the year 2009 amounted to approximately RMB61,905,000, comparing to RMB31,990,000 for the year 2008, representing an increase of 94%.

During the year 2009, approximately RMB2,098,000 (or 3% of the total turnover) was derived from the income of technology transfer, and the rest of approximately RMB59,807,000 (or 97% of the total turnover) came from the sale of medical products. In contrast, approximately RMB88,000 (or 0.3% of the total turnover) was derived from the income of technology transfer, and the rest of approximately RMB31,902,000 (or 99.7% of the total turnover) came from the sale of medical products for the year 2008.

REVENUE FROM TECHNOLOGY TRANSFER

Income recognized from technology transfer for the year 2009 was approximately RMB2,098,000. Of which, RMB2,000,000 is a milestone income for a technology which was transferred to a pharmaceutical company in Taiwan in 2004. The remaining balance is a royalty payment received at a certain percentage of revenue that came from a technology which was transferred to a pharmaceutical company in Shandong Province in 2002, as stipulated by the relevant technology transfer contract.

REVENUE FROM SALE OF MEDICAL PRODUCTS

Revenue of the Group from the sale of medical products for the year 2009 was RMB57,455,000, increased by 80% from that of last year which was RMB31,902,000. Sales of the new products, ALA and Libod, which the Group had launched to the market, have contributed significant revenue to the Group. On 18 April 2009, the Company entered into a contract with Nanjing Medical to offer the exclusive distribution rights of Libod from the contract effective day to 31 December 2014, for a total consideration of RMB20,000,000, of which, amount of RMB2,352,000 is recognized as revenue in 2009.

COST OF SALES

For the year 2009, cost of sales of the Group was RMB16,185,000, while the corresponding figure for 2008 was RMB12,209,000. The ratio of cost of sales to sales dropped to 26% from the level of 38% for last year. The deduction of costs benefits first of all from the strict cost control that the Group executed, and secondly from the higher profit margin of the two new products that have been launched lately.

OPERATING LOSS

For the year 2009, operating loss of the Group was RMB5,050,000, comparing to RMB21,647,000 for the year 2008, representing a decrease of 77%.

Expenditure and other income presented before operating loss are as follows:

- R&D costs for the year 2009 was RMB22,108,000, compared with RMB16,004,000 for the year 2008, representing an increase of 38%.
- Distribution and marketing costs for the year 2009 was RMB30,483,000, compared with RMB21,701,000 for the year 2008, representing an increase of 40%.
- Administration expenses for the year 2009 was RMB11,848,000, compared with RMB12,156,000 for the year 2008, representing a decrease of 3%.
- Other operating expenses for the year 2009 was RMB268,000, compared with RMB1,270,000 for year 2008, representing a decrease of 79%.
- Other income for the year 2009 was RMB13,937,000, compared with RMB9,703,000 for the year 2008, representing an increase of 44%, partly because the Group has recognized more income from government grants on R&D projects and a non-refundable grant due to the termination of the collaboration with a third party company during the year.

LOSS/(PROFIT) ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

A loss attributable to shareholders of the Company of RMB7,320,000 was recorded in the consolidated financial statements for the year 2009, compared with RMB23,402,000 for the year 2008.

For the year 2009, the profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB93,000 (2008: loss of RMB12,304,000).

SIGNIFICANT INVESTMENTS

For the year 2009, the Group did not have any significant investment.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The capital increase in Taizhou Pharmaceutical has been completed in December 2009, pursuant to the announcement dated on 12 August 2009. Taizhou Huaxin invested RMB100,000,000 to subscribe for RMB20,000,000 in the registered capital of Taizhou Pharmaceutical, representing 23.26% of the total equity interest as enlarged by the capital increase. The Company's holding of the registered capital of Taizhou Pharmaceutical has dropped from 90.91% to 69.77%.

CONTINGENT LIABILITIES

As at 31 December 2009, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

On 10 March 2006, the Group put its real estate property in pledge to obtain a full-interest-subsidized loan given by Pudong "Wise-eye project" respectively. The mortgaging period depends on the time to redemption of the loans.

On 23 June 2006, the Group put its real estate property in pledge to obtain an interest-free loan granted by "Technology and Education Promoting Shanghai" project. The Group has repaid full amount of the loan at the due date, and the corresponding pledge has been rescinded.

On 23 October 2009, the Group put its real estate property in pledge to obtain a bank loan. The mortgaging period depends on the time to redemption of the loans.

BANKING FACILITIES

Aided by the "Technology and Education Promoting Shanghai" project, the Group took a loan of RMB11,000,000 and a loan of RMB10,000,000 on 12 April 2006 and 6 July 2007, respectively. Both of the two loans are due for repayment on 31 December 2011. They are interest-free if fully repaid before 31 December 2009. Interest has to be paid if the loans are repaid between 1 January 2010 and 31 December 2011.

Assisted by the Pudong "Wise-eye project", the Group took a bank loan of RMB20,000,000 on 12 July 2006 which is due for repayment on 10 July 2009. Full amount of the interest of the loan is subsidized by the Pudong New Area government. The Group has repaid full amount of the loan at the due date, and the corresponding pledge has been rescinded.

Aided by "Jiangsu Technology Results Transfer Project", a subsidiary of the Group, Taizhou Pharmaceutical, took a loan of RMB10,000,000 from government authority on 28 February 2008 which is due for repayment on 27 May 2011. The loan is unsecured and interest-free.

On 17 September and 23 October 2009, the Group took two bank loans of RMB12,000,000 and RMB20,000,000, respectively. Redemption date for the first loan is 2 September 2010. The second loan is to be repaid within three years on an equal amount basis, with the due dates being 22 October 2010, 2011 and 2012, respectively. Full amount of the loan interest is subsidized by the Pudong New Area government.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Company made an announcement on 7 March 2008 that it would cooperate with a wholly owned subsidiary of Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. to construct the industrial space next to the Company's existing site. This is a connected and discloseable transaction, which has been approved on the EGM held on 23 May 2008. The first transfer as stipulated by the contract has been completed. The transaction has entered into phase II, and the second transfer will be made when appropriate.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations and investing activities with internally generated financial resources, proceeds from the listing of the Company's shares on the Hong Kong GEM Board in August 2002, and interest-free and interest-subsidized commercial loans supported by the municipal government authorities. As at 31 December 2009, the Group had outstanding loans which are supported by the government of RMB64,650,000, of which RMB11,650,000 is unsecured and interest-free, and RMB53,000,000 is secured bank loans with interest fully subsidized.

As at 31 December 2009, the Group had cash and cash equivalents of approximately RMB86,898,000.

The Group's gearing ratio as at 31 December 2009 was 0.96 (31 December 2008: 1.12) which is calculated based on the Group's total liabilities of RMB130,463,000 (31 December 2008: RMB82,569,000) and capital and reserves attributable to shareholders of the Company of RMB135,689,000 (31 December 2008: RMB73,587,000).

The Group adopts a conservative treasury policy in cash and financial management. To achieve better risk control and to minimize the finance cost, the Group's treasury activities are centralized. The Group's liquidity and financing arrangements are reviewed regularly.

FOREIGN EXCHANGE EXPOSURE

The Group operates mainly in the domestic market. Cash proceeds from the placing of H shares in August 2002 were in Hong Kong dollar, and basically all has been converted to RMB. The operating results and the financial position of the Group will not be affected by the movements in exchange rates.

EMPLOYEES AND SALARIES

As at 31 December 2009, the Group had a total of 212 employees, as compared to 216 employees as at 31 December 2008. Staff costs including directors' remuneration for the year 2009 were RMB25,146,000, compared with RMB25,360,000 for the year 2008. The salaries and benefits of employees of the Group are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory social welfare plans, are also provided to employees.

Details of the remuneration policies are set out in the section "Remuneration committee" of the "Corporate governance report".

Report of the Directors

The Board is pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the R&D of innovative drugs.

The Group's turnover for the year 2009 was generated from technology transfer and sale of medical products with the provision of related ancillary services.

An analysis of the Group's performance for the year ended 31 December 2009 by business segments is set out in note 41 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS OF DIANOSTIC REAGENT

During the period covered by this report, the proportions of the major customers and suppliers which accounted for the Group's total sales and purchases are as follows:

	Proportion in the Group's total	
	Sales	**Purchases**
Largest customer	37.65%	
Total of the five largest customers	64.25%	
Largest supplier		13.04%
Total of the five largest suppliers		41.30%

Shanghai Pharmaceutical, a substantial shareholder of the Company, is a substantial customer of the Company. The connected transaction has been approved by the general meeting. Save as above, none of the Directors, their respective associates or any shareholder of the Company who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company has any beneficial interest in any of the Group's five largest customers or suppliers of the Group.

Report of the Directors

RESULTS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income and related explanatory notes to the consolidated financial statements.

DIVIDENDS

At the meeting on 23 March 2010, the Board did not propose any dividends for the year ended 31 December 2009.

SHARE CAPITAL

Details of movement in the share capital of the Company during the year are set out in note 37 to the consolidated financial statements.

RESERVES

Details of movement in the reserves of the Group and of the Company during the year are set out in Consolidated Statement of Changes in Equity and note 38 to the financial statements. On 31 December 2009, there was no distributable reserve to the shareholders of the Company.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in property, plant and equipment of the Group for the year are set out in note 16 to the consolidated financial statements.

STAFF RETIREMENT BENEFIT SCHEME

Details of the staff retirement benefit scheme of the Group are set out in note 9 to the consolidated financial statements.

STAFF QUARTERS

During the year, the Group has not provided staff quarters to its staff. Details of the housing subsidies provided to staff are set out in note 8 to the consolidated financial statements.

Report of the Directors

DIRECTORS AND SUPERVISORS

Directors and supervisors of the Group during the year and as at the date of this report are as follows:

EXECUTIVE DIRECTORS:

Wang Hai Bo *(Chairman)*
Su Yong
Zhao Da Jun

NON-EXECUTIVE DIRECTORS:

Fang Jing
Zhou Jie
Guo Jun Yu
Hao Hong Quan
Zhu Ke Qin

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Pan Fei
Cheng Lin
Weng De Zhang

SUPERVISORS:

Yang Xiao Hua (*Chairman*, resigned on 12 June 2009)
Zhu Zu Shun
Bao Qi (Appointed on 12 June 2009)
Zhang Man Juan
Guo Yi Cheng
Xu Qing

CORPORATE GOVERNANCE

The Board has always been endeavoring in achieving a better corporate governance level, and has been trying to fully comply with the relevant corporate governance regulations of the Listing Rules. Details of corporate governance of the Group are set out in the following reports of the annual report:

1) Corporate governance report

2) Report of the supervisory committee

3) Report of the audit committee

4) Report of the remuneration committee

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Refer to "Directors' and supervisors' service contracts" section of the "Corporate governance report".

PROFILE OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Refer to "Profile of the Directors, Supervisors and senior Management" of the annual report.

EMOLUMENTS OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HIGHEST PAID INDIVIDUALS

Details of emoluments of Directors, Supervisors, Senior Management and highest paid individuals are set out in note 13 to the consolidated financial statements.

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

Refer to "Rights of directors, chief executive and supervisors in purchasing shares or debentures" section of the "Corporate governance report".

DETAILS OF OPTIONS GRANTED BY THE COMPANY

On 23 June 2002, the Company adopted a share option scheme under which the executive Directors or full-time employees of the Company or its subsidiaries or any of their respective associates may be granted options to subscribe for shares of the Company subject to the terms and conditions stipulated in the Share Option Scheme.

As at the date of this report, no option has been granted or agreed to be granted to any executive director or full-time employee of the Company or its subsidiaries or any of their respective associates under the Share Option Scheme.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Refer to "Directors' and supervisors' interests" section of the "Corporate governance report".

DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2009, the interests (including interests in shares and/or short positions) of the Directors, Chief Executive and Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, (a) as notified to the Company and the Stock Exchange pursuant to: Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO"); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Name of Directors	Class of shares	Number of shares held	Capacity	Type of interest	Percentage Domestic shares	Percentage of total share capital
Wang Hai Bo	Domestic Shares	51,886,430 (L)	Beneficial owner	Personal	10.13%	7.31%
Su Yong	Domestic Shares	18,312,860 (L)	Beneficial owner	Personal	3.58%	2.58%
Zhao Da Jun	Domestic Shares	15,260,710 (L)	Beneficial owner	Personal	2.98%	2.15%
Fang Jing	Domestic Shares	5,654,600 (L)	Beneficial owner	Personal	1.10%	0.80%

Note: The letter "L" stands for long position.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2009, the persons other than a director, chief executive or supervisor of the Company who have interests and/or short positions in the shares or underlying shares of the Company subject to disclosure under Divisions 2 and 3 of Part XV of the SFO are listed as follows (the interests in shares and/or short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, Chief Executive and Supervisors):

Name of substantial shareholders	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the respective class of share capital	Percentage in total share capital
Shanghai Industrial Investment (Holdings) Co. Ltd.	Domestic Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	27.26%	29.60%
	H Shares	70,564,000 (L)			35.64%	
Shanghai Pharmaceutical Co., Ltd.	Domestic Shares	139,578,560 (L)	Beneficial Owner	Corporate	27.26%	19.66%
S.I. Pharmaceutical Holdings Ltd.	H Shares	65,856,000 (L)	Beneficial Owner	Corporate	33.26%	9.28%
SIIC Medical Science and Technology (Group) Limited	H Shares	4,708,000 (L)	Beneficial Owner	Corporate	2.38%	0.66%
China General Technology (Group) Holding, Limited	Domestic Shares	130,977,816 (L)	Beneficial Owner	Corporate	25.58%	18.45%
Shanghai Zhangjiang (Group) Co. Ltd.	Domestic Shares	105,915,096 (L)	Interest of controlled corporation	Corporate	20.69%	14.92%

Name of substantial shareholders	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the respective class of share capital	Percentage in total share capital
Shanghai Zhangjiang Hi-Tech Park Development Co Ltd.	Domestic Shares	105,915,096 (L)	Beneficial Owner	Corporate	20.69%	14.92%
Fudan University	Domestic Shares	30,636,286 (L)	Beneficial Owner	Corporate	5.98%	4.31%

COMPETING INTERESTS

Save as disclosed in the following table, none of the Directors, the management shareholders of the Company and their respective associates had any interest in a business which competes or may compete with the businesses of the Group.

Shanghai Pharmaceutical Co., Ltd.

Investee company	Nature of business	Shareholding interests
Shanghai Huashi Pharmaceutical Hi-Tech Industrial Development Co., Ltd. (上海華氏醫藥高科技實業發展有限公司)	Drug introduction and R&D of chemical and initiative drugs	100%

China General Technology (Group) Holding, Ltd.

Investee company	Nature of business	Shareholding interests
Hainan Sanyang Pharmaceutical Co., Ltd. (海南三洋藥業有限公司)	Drug manufacturing	80.55%

Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd.

Investee company	Nature of business	Shareholding interests
Meilian Biotechnology Company (美聯生物技術公司)	R&D of genetic pattern	49.47%

CONNECTED TRANSACTIONS

For the year ended 31 December 2009, the connected transactions, including the product sales revenue of RMB386,000 to a major shareholder, Shanghai Pharmaceutical Co., Ltd, were either exempted from disclosures or have been approved by the General Meeting.

31.25% of the shares of Morgon Tan International Center for Life Science (Morgan Tan), which were originally held by Zhangjiang Group, a connected party of the Group, were transferred to the Group during January 2010, for a consideration of RMB848,000. Morgan Tan has become a wholly-owned subsidiary of the Group. The transaction is exempted from disclosure.

During March 2010, the Company transferred the construction-in-progress project to a wholly-owned subsidiary of Shanghai Zhangjiang Hi-Tech Par Co. (first transfer), according to the Cooperation Framework Agreement. This is a connected and discloseable transaction. The Company made an announcement on 7 March 2008. The transaction was approved on the extraordinary general meeting (EGM) held on 23 May 2008. The second transfer is in the process as per Agreement, and would be completed when appropriate.

SECURITIES TRANSACTIONS BY DIRECTORS

Refer to "Directors' securities transactions" section of the "Corporate governance report" for more details.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2009.

PRE-EMPTIVE RIGHTS

There is no regulation for the purchase of the pre-emptive rights as set out in the articles of association of the Company or by the laws of the People's Republic of China ("PRC" , being the jurisdiction in which the Company was established), which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial reporting, internal controls and corporate governance issues and making relevant recommendations to the Board. All the members are Independent Non-executive Directors: Mr. Pan Fei, Mr. Weng De Zhang and Mr. Cheng Lin. Mr. Pan Fei was appointed as the chairman of the Committee.

The Audit Committee reviews the accounting principles and practices adopted by the Group, as well as the listing rules and statutory compliance, and reviews issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee reviewed the Group's annual results for 2009 before proposing to the Board for approval.

For more details, refer to "Report of audit committee" of "Audit committee" section of the "Corporate governance report".

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers. The Company has not changed the auditors during the last three years.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the regulations prescribed by the GEM Listing Rules, each of the independent non-executive Directors of the Company has confirmed with the Company their independence. The Company has received such confirmation from the independent non-executive Directors and considers the independent non-executive Directors as independent.

By Order of the Board
Wang Hai Bo
Chairman

As at the date of this report, the Board comprises:

Mr. Wang Hai Bo *(Executive Director)*
Mr. Su Yong *(Executive Director)*
Mr. Zhao Da Jun *(Executive Director)*
Ms. Fang Jing *(Non-executive Director)*
Mr. Zhou Jie *(Non-executive Director)*
Mr. Guo Jun Yu *(Non-executive Director)*
Mr. Hao Hong Quan *(Non-executive Director)*
Mr. Zhu Ke Qin *(Non-executive Director)*
Mr. Pan Fei *(Independent Non-executive Director)*
Mr. Cheng Lin *(Independent Non-executive Director)*
Mr. Weng De Zhang *(Independent Non-executive Director)*

Shanghai, the PRC
23 March 2010

Report of the Supervisory Committee

To the Shareholders:

The Supervisory Committee of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Supervisory Committee") for the year 2009 has performed its duties in accordance with the relevant provisions and requirements of the Company Law and the Articles of Association, and the Supervisors have attended all board meetings. They reviewed the Company's relevant financial statements and gave advice and recommendations on the related issues reflected in the Company's operations and management.

The Supervisory Committee duly supervised the Directors and Senior Management's compliance with the State's laws and regulations as well as the Articles of Association, in carrying out their duties, and the legal procedures on the change of directorship. The Supervisory Committee held the opinion that there was no violation of the State's laws and regulations or the Articles of Association by the Directors and Managers during the year 2009.

To the point of view of the Supervisory Committee, the resolutions passed in all board meetings for the year 2009 had been made with a view to protecting the Company's interests. No insider dealings, or anything which was prejudicial to the interests of the Company, or loss of Company's assets was acknowledged. The auditors' reports issued by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company are true and objective. The Company's financial statements have accurately reflected the Company's financial position.

The Supervisory Committee is satisfied with the achievement and progress of the Company in 2009 and has great confidence in the future of the Company.

Supervisory Committee

Mr. Zhu Zu Shun
Ms. Bao Qi
Ms. Zhang Man Juan
Mr. Guo Yi Cheng
Mr. Xu Qing

Shanghai, the PRC
23 March 2010

Report of Audit Committee

The Audit Committee comprises three Independent Non-executive Directors. Mr. Pan Fei is a PhD in accounting, and is a member of the American Accounting Association. Mr. Weng De Zhang has been the financial controller of a large enterprise and the head of a bank. Mr. Cheng Lin is a PhD in economics, and has extensive experience in finance, accounting and management.

The Audit Committee assists the Directors in discharging their duties through independent reviews and supervision of financial reporting, together with the Group's effective internal control and in appointing external auditors. The Audit Committee reviews issues involving the accounting principles and practice principles adopted by the Group, including studying audit functions, financial reporting, and internal control, etc. If necessary, the Audit Committee will also invite external auditors, the general manager and senior management to attend meetings. The "Principles of the Audit Committee" passed by the Board of the Company specifically laid down the terms of reference of the Audit Committee, elaborated its role and the power as conferred to the Committee by the Board.

The Audit Committee has sufficient resources to carry out its duties. The Audit Committee is liable to the Board, and the minutes of its meetings are to be submitted to the Board for circular.

Summary of the work done by the Audit Committee in 2009 is as follows:

1) Reviewed the financial reports for the year ended 31 December 2008 and for the half year ended 30 June 2009, and the quarterly reports ended 31 March 2009 and 30 September 2009, respectively;

2) Reviewed the efficiency of the internal control;

3) Reviewed the external audit arrangements and related explanations;

4) Reviewed and approved the audit fees for 2009;

5) Reviewed relevant connected transactions.

Report of Audit Committee

The Audit Committee meeting held on 23 March 2010 reviewed the Company's 2009 consolidated financial statements together with the Company's external auditors, including a review of the accounting principles and practice principles adopted by the Group. Based on the results of the review and after discussion with the management and the auditors, the Audit Committee agreed upon the accounting treatments adopted by the Company, and has made efforts to ensure that the financial information disclosed in the consolidated financial statements comply with relevant requirements of the applicable accounting principles and Listing Rules. Accordingly, the Audit Committee proposes that the Board approves the announcement of the consolidated financial statements for the year ended 31 December 2009 and, the Audit Committee proposes that the Board to consider the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the international and the statutory auditors of the Group, respectively, for the year 2010.

The Audit Committee has held regular meetings, at least four times annually, and in 2009, the Audit Committee has held four meetings.

AUDIT COMMITTEE

Mr. Pan Fei *(Chairman)*
Mr. Weng De Zhang *(vice Chairman)*
Mr. Cheng Lin

Shanghai, the PRC
23 March, 2010

Report of Remuneration Committee

The Remuneration Committee is comprised of 5 members, who are: Mr. Cheng Lin (Chairman, Independent Non-executive Director), Mr. Pan Fei (Independent Non-executive Director), Mr. Weng De Zhang (Independent Non-executive Director), Mr. Zhou Jie (Non-executive Director), Ms. Fang Jing (Non-executive Director).

The Remuneration Committee is responsible for setting up the Group's remuneration policy, recommending and approving for the remuneration of all the Directors and senior executives, including the annual allocation of share options under the Share Option Scheme (if feasible). The Remuneration Committee reviews the existing remuneration policy annually, and makes proposals to the Board for changes to the remuneration policy and system. If necessary, it also makes references to the opinions of external human resources advisers in respect of human resources management and remuneration policies. After each meeting, the Remuneration Committee reports to the Board.

The "Principles of the Remuneration Committee" passed by the Board of the Company specifically laid down the terms of reference of the Remuneration Committee, elaborated its role and the power as conferred to the Committee by the Board. The Remuneration Committee has sufficient resources to carry out its duties. The Remuneration Committee is liable to the Board, and the minutes of its meetings are to be submitted to the Board for circular.

Summary of the work done by the Remuneration Committee in 2009 is as follows:

1) Review and approve the remuneration policy of the Company;

2) Review the remuneration scheme for the Directors and Supervisors for the year 2008;

3) Lay down the remuneration scheme for the Directors and Supervisors for 2009.

The Remuneration Committee has held one meeting in 2009.

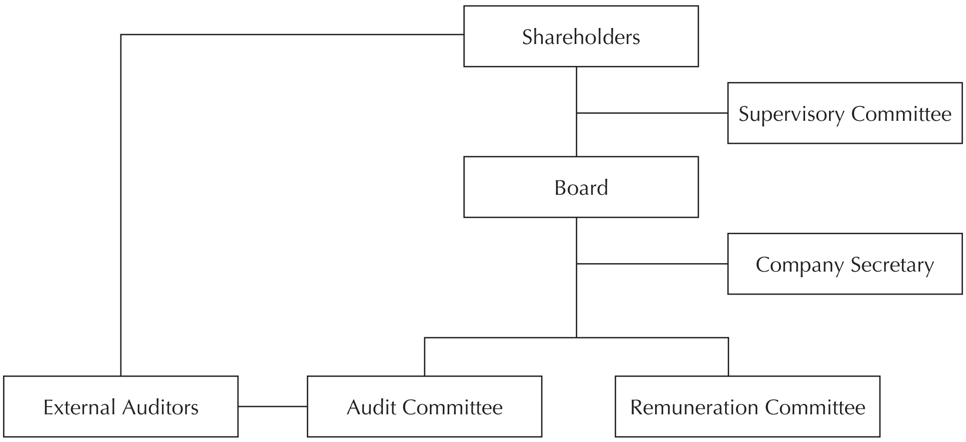
REMUNERATION COMMITTEE

Mr. Cheng Lin *(Chairman)*
Mr. Pan Fei
Mr. Weng De Zhang
Mr. Zhou Jie
Ms. Fang Jing

Shanghai, the PRC
23 March, 2010

CORPORATE GOVERNANCE PRACTICE

The Company's corporate governance structure is as follows:



The Company's Code of Corporate Governance Practice includes but not limited to the following documents:

a) Articles of Association;

b) Principles of the Audit Committee;

c) Principles of the Remuneration Committee;

d) Principles regarding transactions in the Company's securities;

e) Daily management documents of the Company.

The Board has reviewed its corporate governance documents and is of the view that such documents have incorporated most of the Principles and Code Provisions in the "Code of Corporate Governance Practice" of the Listing Rules of The Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Code"). In some aspects, the codes of corporate governance adopted by the Company are even stricter than the provisions as set out in the "Code". Hereunder are the points which are stricter than or deviate from the provisions in the "Code".

Major aspects which are stricter that the provisions as set out in the "Code":

— All members of the Audit Committee are Independent Non-executive Directors.

Major aspects which deviate from the provisions as set out in the "Code":

— The chairman and the general manager is the same person. Although the Articles of Association has specific requirements on the duties of the chairman and the general manager (chief executive), which are to be responsible for the operating management of the Board and the daily management of the Company's business respectively, the two positions are still taken by one person. Considering that the scope of the Company is relatively small, with its business mainly in the research, production and sales of innovative drugs, and that it has not completely stepped out of the venture period for the time being, also for the sake of management efficiency, the Board holds the point that the chairman and the chief executive taken by one person is beneficial for the Company's development at the present stage. Along with the development of the Company, the Board will consider the segregation of chairman and chief executive duties.

BOARD

The Company is governed by the Board which has the responsibility for leadership and control of the Company. The Directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

Directors

Currently, the Board comprises the Chairman, another two Executive Directors, five Non-executive Directors and three Independent Non-executive Directors. All the Directors were in place in the whole year of 2009.

Personal information of the Directors are set out in the section headed "Directors, Supervisors and senior management" in this report. Members of the Board and their appointments are as follows:

Directors	Time of first appointment	Date of recent re-appointment	Term
Executive Directors			
Wang Hai Bo *(Chairman)*	11 November 1996	23 May 2008	Three years
Su Yong	20 January 2002	23 May 2008	Three years
Zhao Da Jun	20 January 2002	23 May 2008	Three years
Non-executive Directors			
Fang Jing	20 January 2002	23 May 2008	Three years
Zhou Jie	24 June 2005	23 May 2008	Three years
Guo Jun Yu	24 June 2005	23 May 2008	Three years
Hao Hong Quan	8 June 2007	23 May 2008	Three years
Zhu Ke Qin	23 May 2008	23 May 2008	Three years
Independent Non-executive Directors			
Pan Fei	20 June 2003	23 May 2008	Three years
Cheng Lin	10 July 2002	23 May 2008	Three years
Weng De Zhang	20 June 2003	23 May 2008	Three years

The Company's Independent Non-executive Directors have a wide range of skills and experience. They are able to serve the important function of providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole. Of the 8 Non-executive Directors, 3 (more than one-third) are Independent Non-executive Directors. The Board considers that they can effectively make independent judgments in compliance with the guidelines under rule 5.09 of the Listing Rules regarding independence in assessments.

All the Directors have the terms for not more than three years, and can be re-nominated for re-election in the AGM.

Powers of the Board

The Board of the Company reviews the performance of the operating divisions against their agreed budgets and business targets on a regular basis, and also exercises a number of reserved powers pursuant to the Articles of Association, including:

1) Responsible for convening shareholders general meetings, and presenting reports to the meetings;

2) Implementing the resolutions of the general meetings;

3) Determining the operation plans and investment plans of the Company;

4) Formulating annual financial budgets of the Company;

5) Formulating profit distribution plans and loss compensation plans of the Company;

6) Setting up liability and financial policies of the Company, plans for the increase or reduction of the Company's registered capital and plans for the issue of the Company's bonds;

7) Formulating material acquisition or disposal plans of the Company, and the Company's merger, demerger and dissolution plans;

8) Determining deployments of the Company's internal management;

9) Appointing or removing the Company's managers, and appointing or removing the Company's vice presidents, financial controller, Board secretary in accordance with the nomination of the general manager, and deciding on their remunerations;

10) Setting the basic management policies of the Company;

11) Formulating the amendment plans to the Articles of Association;

12) Deciding other material affairs and administration affairs of the Company other than those to be resolved in the general meeting pursuant to the Company Law and the Articles of Association, and signing other important agreements.

The Board is responsible for the integrity of financial information and the effectiveness of the Group's systems of internal control and risk management processes. The Board is also responsible for preparing the accounts of the Company. Achievement of the Company's business objectives and the daily management of business are delegated to the general manager (chief executive). The Board regularly reviews the duties of the general manager and the powers delegated to the general manager, so as to ensure the appropriateness of such arrangements.

Chairman and the General Manager

Although the Articles of Association has specific requirements on the duties of the chairman and the general manager (chief executive), which are to be responsible for the operating management of the Board and the daily management of the Company's business respectively, the two positions are still taken by one person. Considering that the scope of the Company is relatively small, with its business mainly in the research, production and sales of innovative drugs, and that it has not completely stepped out of the venture period for the time being, also for the sake of management efficiency, the Board holds the point that the chairman and the chief executive taken by one person is beneficial for the Company's development at the present stage. Along with the development of the Company, the Board will consider the segregation of chairman and chief executive duties.

Board Meetings

The Chairman is responsible for the leadership of the Board, ensuring the effectiveness of the Board in all aspects of its role and for setting its agenda and taking into account any matters proposed by other Directors for inclusion in the agenda. The agenda and accompanying board papers are circulated where possible at least three days before the time of a board or committee meeting. The Chairman is also responsible for making sure all Directors are properly briefed on issues arising at board meetings. The Chairman ensures that the Directors receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Group through their initial induction, ongoing participation at board and committee meetings, and through meeting key people at Head Office and in the divisions.

All Directors have access to the services of the Company Secretary who regularly updates the Board on governance and regulatory matters. Any Director, wishing to do so in the furtherance of his or her duties, may take independent professional advice through the Chairman at the Company's expense. The availability of professional advice extends to the Audit and Remuneration Committees.

Minutes of board meetings are taken by the Company Secretary and, together with any supporting board papers, are available to all board members. Board meetings are structured to encourage open discussion and frank debate to ensure the Non-executive Directors provide an effective challenge to each Executive Director. When necessary, the Independent Non-executive Directors meet privately to discuss matters which are their specific responsibility.

In furtherance of good corporate governance, the Board has established two sub-committees: an Audit Committee and a Remuneration Committee. Both have terms of reference which accord with the principles set out in the Corporate Governance Code. The Company Secretary takes minutes of the meetings of these committees and the work of these committees is reported to the Board.

The Board met four times during 2009. The attendance of individual directors at the board meetings is set out in the table below.

Members of the Board	**Attendance/Times of meetings**	**Attendance Rate**
Executive Directors		
Wang Hai Bo *(Chairman)*	4/4	100%
Su Yong	4/4	100%
Zhao Da Jun	4/4	100%
Non-executive Directors		
Fang Jing	4/4	100%
Zhou Jie	4/4	100%
Guo Jun Yu	4/4	100%
Hao Hong Quan	4/4	100%
Zhu Ke Qin	4/4	100%
Independent Non-executive Directors		
Pan Fei	4/4	100%
Cheng Lin	4/4	100%
Weng De Zhang	4/4	100%

Note: Attendance by proxy on behalf of the Directors is deemed to be attendance. Occasions for the Directors delegating a proxy for attendance are, Mr. Guo Jun Yu 3 times, Mr. Su Yong 2 times, Mr. Zhu Ke Qin once, Mr. Cheng Lin once, and Mr. Wong De Zhang once.

The table below sets out the time and major agenda of Board meetings in 2009:

Time of Board meetings	Major agenda
25 March 2009	Reviewed annual report of 2008; Considered the re-appointment of the auditors; Considered 2009 remuneration plans for Directors and Supervisors; Considered the amendments of Articles of Association of the Company; Determined the time for AGM.
6 May 2009	Reviewed the first quarterly results report of 2009
11 August 2009	Reviewed the interim results report of 2009; Considered the amendments of "Principles of the Audit Committee"; Considered the amendments of "Code of transactions in the Company's securities"; Considered the resolution of capital increase in a subsidiary Taizhou Pharmaceutical.
10 November 2009	Reviewed the third quarterly results report of 2009; Considered the transferee of the shareholdings of Morgan-Tan

Note: all refer to regular Board meetings.

Directors' and Supervisors' Interests

All Directors disclose to the Board on their first appointment their interests as a director or otherwise in other companies or organizations and such declarations of interests are updated annually (if any). When the Board considers any proposal or transaction in which a Director has a conflict of interest, the Director declares his interest and is required to abstain from voting, and withdraw from the meetings as appropriate. The Company will seek confirmation from Directors annually in respect of any transactions of the Company or its subsidiaries which are related to Directors or their associates (if any).

The Group has not entered into any material contracts in which the Group's Directors, Supervisors have direct or indirect interests during any time in 2009.

Directors and Supervisors' Service Contracts

All the Directors and Supervisors have entered into service contracts with the Company, which are renewable upon expiry, subject to re-election in the general meeting.

Corporate Governance Report

Rights of Directors, chief executive and Supervisors in purchasing Shares or debentures

None of the Directors, chief executive or Supervisors or their spouse or children of age under 18 has been authorized by the Company or any subsidiary any right to purchase shares or debentures in the Company or any other body corporate, or have exercised such rights within 2009.

Interests of Directors, Chief Executive and Supervisors in the Shares of the Company

Refer to the section headed "Directors, Chief Executive and Supervisors" in the Report of Directors.

SUPERVISORY COMMITTEE

Members of the Supervisory Committee and their appointments are as follows:

Supervisors	Time of initial appointment	Date of latest re-appointment	Term
Yang Xiao Hua *(chairman)*	24 June 2005	23 May 2008	Resigned on 12 June 2009
Zhu Zu Shun *(shareholders' representative)*	16 June 2006	23 May 2008	3 years
Bao Qi *(Supervisor)*	12 June 2009	12 June 2009	2 years
Zhang Man Juan *(staff representative)*	24 June 2005	23 May 2008	3 years
Guo Yi Cheng *(Independent Supervisor)*	23 May 2008	23 May 2008	3 years
Xu Qing *(Independent Supervisor)*	23 May 2008	23 May 2008	3 years

In 2009, the Supervisors attended all Board meetings, and considered related resolutions. For details, please the "Report of the Supervisory Committee" for the year.

DIRECTORS' SECURITIES TRANSACTIONS

The amended "Code of transactions in the Company's securities", which was passed through on 11 August 2009 by the Board meeting of the Company, has the terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Directors and relevant employees shall be bound under this Code. A copy of the code is sent to each Director upon his appointment and thereafter, a reminder not to deal in the securities of the Company until after the periodic results have been published would be sent to the Directors 30 days before the date of every Board meeting on which the quarterly and half-yearly results are supposed to be approved, and 60 days before the annual board meeting.

Under the Securities Code, Directors are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the Chairman of the Audit Committee and receive a dated written acknowledgement before any dealing.

Supervisors' securities transactions apply to the regulations for the Directors. All the relevant employees, if any, having any price-sensitive information of the Group which is not yet disclosed, also apply to the regulations for the Directors.

Having made enquiries, all Directors, Supervisors and relevant employees have complied with the relevant requirements in 2009.

INTERNAL CONTROL

The Company's Audit Committee and the Board have reviewed the effectiveness of the internal control system of the Group, and considered that the scope of the Company is relatively small at present, therefore though only one internal control/internal audit team has been set up, the effectiveness of the Company can still be guaranteed in respect of financial, operational, compliance and risk management.

The Company will further enhance the Company's internal control system pursuant to the requirements of the Listing Rules on internal control, to ensure that the Company's financial, operational, compliance and risk management are under effective control during the process of its continuing development, and to protect the interests of shareholders. The Board has approved the establishment of an internal control/internal audit team.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial reporting, internal control and corporate governance issues and making relevant recommendations to the Board. All the members are Independent Non-executive Directors: Mr. Pan Fei, Mr. Weng De Zhang and Mr. Cheng Lin. Mr. Pan Fei was appointed as the chairman of the Committee. Mr. Pan Fei is a member of the American Accounting Association. Other members also have the appropriate professional qualifications in accounting or related financial management.

The Company has set up specific "Principles of the Audit Committee" as a guideline for the Audit Committee in dealing with various matters.

The Audit Committee met four times in 2009. Senior management and/or external auditors were invited to attend each meeting. In 2009, the Audit Committee has reviewed reports of external auditors, the accounting principles and practices adopted by the Group, and listing rules and statutory compliance, and reviewed issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee made discussions on the Group's 2009 quarterly, half-year and the audited 2008 annual results before proposing to the Board for approval. The Audit Committee has discussed the appointment of external auditors and the related fees, and has made proposals to the Board in respect of such matters.

Attendance of meetings of the Audit Committee in 2009:

Audit Committee	**Attendance/ Times of meetings**	**Rate**
Pan Fei *(chairman)*	4/4	100%
Weng De Zhang *(vice chairman)*	4/4	100%
Cheng Lin	4/4	100%

Note: Occasions for the Members delegating a proxy for attendance are, Mr. Wong De Zhang once, and Mr. Cheng Lin once.

Connected transactions

The Audit Committee has reviewed the connected transactions. For the year ended 31 December 2009, the connected transactions were either exempted from disclosures or have been approved by the General Meeting.

External auditors

The Group appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the Group's international and statutory auditors respectively in 2009. The Company has not changed the auditors in the past three years. Hereunder are the fees on the audit services and related expenses for the year and the previous year:

Auditor	Audit fees in 2009	Audit fees in 2008
PricewaterhouseCoopers	RMB670,000	RMB720,000
PricewaterhouseCoopers Zhong Tian CPAs Limited Company	RMB304,000	RMB304,000

The Company has also appointed PricewaterhouseCoopers as scrutineer for vote-taking at the AGM.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for setting up the Group's remuneration policy, recommending and approving for the remuneration of all the Directors and senior executives, including the annual allocation of share options under the Share Option Scheme (if feasible). The Remuneration Committee reviews the existing remuneration policy annually, and makes proposals to the Board for changes to the remuneration policy and system. If necessary, it also makes references to the opinions of external human resources advisers in respect of human resources management and remuneration policies. After each meeting, the Remuneration Committee reports to the Board.

Salaries of various level staff of the Group have been determined by reference to those of the comparable companies, especially companies located in Shanghai and Zhangjiang Hi-tech Park which have direct comparability. In order to retain the expertise for the Company's successful operation, salary level of the Company has to be competitive, which normally comprises three parts, namely fixed portion, unfixed portion and statutory benefits. The fixed portion is the basic salary, which is mainly determined by reference to the level of salaries of similar type of works in comparable companies. Individual salaries may be different due to the difference in position, performance, skills and experience. Certain adjustments may be made each year to the basic salaries based on the performance of the Company's business, market competition and inflation. In addition to the fixed portion, bonus may also be released to the relevant people as an incentive to their performance and to enhance their loyalty to the Company. The Company also provides other benefits such as free lunch and transportation allowances. Options may be granted to the staff of the Company (if appropriate), to subscribe for the shares of the Company, subject to the terms and conditions in the Share Option Scheme. Under the relevant laws and regulations of the State, the Company is required to pay statutory benefits such as retirement insurance funds, common reserve funds, medical insurance and unemployment insurance funds for the staff.

The Board established a Remuneration Committee, and stipulated clearly the "Principles of the Remuneration Committee", with specific terms of reference of the Remuneration Committee. The Remuneration Committee is comprised of 5 members, who are: Mr. Cheng Lin (Chairman, Independent Non-executive Director), Mr. Pan Fei (Independent Non-executive Director), Mr. Weng De Zhang (Independent Non-executive Director), Mr. Zhou Jie (Non-executive Director), and Ms. Fang Jing (Non-executive Director).

The Remuneration Committee held one meeting during 2009, the attendance of which was as follows:

Remuneration Committee	**Attendance/ Times of meetings**	**Rate**
Cheng Lin *(chairman)*	1/1	100%
Pan Fei	1/1	100%
Weng De Zhang	1/1	100%
Zhou Jie	1/1	100%
Fang Jing	1/1	100%

Emoluments of Directors and senior managements for 2009 refer to note 13 to the Financial Statements.

Remuneration Policy for Executive Directors

The primary goal of the remuneration policy on executive remuneration packages is to enable the Company to retain and motivate Executive Directors by linking their compensation with performance as measured against corporate objectives. Under the policy, a director is not allowed to approve his own remuneration.

The principal elements of the Company's executive remuneration package include basic salary, discretionary bonus, share option (if appropriate), and statutory benefits. In determining guidelines for each compensating element, the Committee refers to remuneration surveys conducted by independent external consultants on companies operating in similar businesses.

Basic Salaries

Mainly by reference to the salary levels of comparable companies. There are some adjustments to the basic salaries for each year based on the Company's business performance, market competition, and inflation. The Remuneration Committee reviews the remunerations for Directors annually, under the circumstance that the Directors concerned abstain.

Discretionary bonus

The computation of discretionary bonus is based on measurable performance contributions of business units headed by the respective executive directors.

Options

The Company has adopted a Share Option Scheme on 23rd June 2002, pursuant to which options will be granted to the Directors and the staff of the Company, to subscribe for Shares in the Company with terms and conditions as specified in the Share Option Scheme. However, due to some restrictions under the laws and regulations, the Company has not granted or agreed to grant any options to any parties under the Share Option Scheme prior to the date of this report.

The Remuneration Committee approves the grant of share options under the Company's approved share option scheme to Executive Directors, with regard to their individual performances and achievement of business targets.

Statutory benefits

Under the relevant laws and regulations of the State, the Company is required to pay statutory benefits such as retirement insurance funds, common reserve funds, medical insurance and unemployment insurance funds. The ratios of such benefits to the salaries are also subject to adjustments pursuant to relevant regulations.

Remuneration for Non-executive Directors

The remuneration of Non-executive Directors is subject to annual assessment and recommendation by the Remuneration Committee for shareholders' approval at the Annual General Meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at the Company meetings.

The Company has not paid any remuneration to Non-executive Directors and Shareholder representative Supervisors other than the Independent Non-executive Directors, nor has it paid any statutory benefit to the Non-executive Directors and Independent Supervisors.

NOMINATION OF DIRECTORS

The Company does not have a Nomination Committee. The Board is directly in charge of nomination of Directors. The Board also reviews the composition of the Board from time to time, so as to ensure the balance of the skills and experience of its members.

The relevant standards for the nomination of candidates of Directors include appropriate professional knowledge and industrial experience, personal behavior, fidelity and skills, and the commitment for dedication of sufficient time.

In 2008, Mr. Zhu Ke Qin has been appointed as Director through the above procedure. As the Company adopts the procedure of nomination by the Board and voting in the general meeting, and has so far been operating satisfactorily, there is therefore no need for setting up a Nomination Committee. In 2009, no issue of Directors' nomination was discussed by the Board.

RELATIONSHIP WITH INVESTORS

The Company is committed to fair disclosure and comprehensive, transparent reporting. The Chairman is ultimately responsible for ensuring that there is effective communication with investors and that the Board understands the views of major investors. The Chairman therefore makes himself available to meet shareholders for this purpose. On a day-to-day basis the Board's primary contact with major shareholders is through the Company Secretary.

Reference is made to the announcement of the Company dated 20 January 2009, the public float of the Company has been lowered to 17.95%. The Company has applied to the Stock Exchange with the proposed possible means to deal with the insufficient public float issue. Further announcement will be published as and when appropriate.

The Board will make the best effort to keep full communication with shareholders, and give adequate introduction regarding the Company's development situation and prospects at the AGM. Also, most of the Non-executive Directors in the Board are representatives of shareholders, through whom the Board may communicate with the related shareholders at any time. In addition, the Company Secretary may respond to the various enquiries of shareholders, and provide relevant information.

All the issues should be individually raised by resolutions and voted by poll at the AGM. The Company's lawyers are required to attend the meeting and witness the results of voting, and to issue their legal opinion.

In 2009, the Company has held on AGM, details of which are as follows:

Time	10:00 a.m., 12 June 2009
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Shareholders annual general meeting
Way of voting	Poll
Major issues	General matters of the AGM; Appointment of Supervisors; Amendments of Articles of Association; General mandate for the issue of 20% of the Shares.

Arrangements for the dates of the quarterly results, interim results and AGM in 2010 are as follows:

Items	**Proposed time**
Announcement of 2009 results	23 March 2010
Announcement of 2010 first quarterly results	Around 10 May 2010
AGM	11 June 2010
Announcement of 2010 interim results	Around 10 August 2010
Announcement of 2010 third quarterly results	Around 10 November 2010

By order of the Board
Rui Wang
Secretary

Shanghai, the PRC
23 March, 2010

Profiles of Directors, Superviors and Senior Management

DIRECTORS

EXECUTIVE DIRECTORS

Wang Hai Bo, aged 49, is an executive Director, the chairman of the Board and general manager of the Company. He founded the Company in November 1996. He graduated from Fudan University with a master's degree in biology and was an associate professor there. He has published numerous articles, earning him awards such as the State Star Fire Grade III Award (國家星火三等獎), Education Committee Grade II Award (教委二等獎) to Technology Advancement Award of the Shanghai Province (上海市科技進步獎). He was the former chief technology officer of Zhejiang Shenghua Biok Biology Co. Ltd., a listed company in the PRC. He was appointed as an executive Director in November 1996.

Su Yong, aged 46, is an executive Director and deputy general manager of the Company. He joined the Company in April 1997. He graduated from Zhejiang University with a Ph.D. in Oncology and from Fudan University with a master's degree in Biochemistry. He has been working in the field of genetic engineering for over nine years. He was the chief engineer of Hangzhou Jiuyuan Gene Engineering Co., Ltd. He was appointed as an executive Director in January 2002.

Zhao Da Jun, aged 39, is an executive Director, deputy general manager, compliance officer and an authorized representative of the Company. He is a cofounder of the Company. He graduated from Fudan University with a master's degree in biology. He also holds a master's degree in Business Administration from the University of Hong Kong. He has been awarded the National Education Committee on Technology Advancement Grade II Award (國家教委科技進步二等獎) in 1997. He was appointed as an executive Director in January 2002.

NON-EXECUTIVE DIRECTORS

Fang Jing, aged 40, is the general manager of Investment Management Department of ZJ Hi-tech Park Co. She graduated from Shanghai Finance College majoring in finance. She was the former financial controller of the Company. She was appointed as a non-executive Director in January 2002.

Zhou Jie, aged 42, graduated from Shanghai Jiaotong University with a master's degree in management science and engineering. He is an executive director and the executive deputy CEO of Shanghai Industrial Holdings Ltd., the executive director and executive vice president of Shanghai Industrial Investment (Holdings) Co. Ltd., a director of Chia Tai Qingchunbao Pharmaceutical Co. Ltd., Shanghai Sunway Biotech Co. Ltd., The Wing Fat Printing Co. Ltd., and a non-executive director of Semiconductor Manufacturing International Corporation. He previously held the positions of the chairman and general manager of Shanghai S.I. Capital Co. Ltd. and the deputy general manager of the investment banking head office of Shanghai Wanquo Holdings Ltd. (now Shenyin & Wanguo Securities Co. Ltd.). He has over 10 years' experience in investment banking and capital markets operation. He was appointed as an executive Director in June 2005.

Profiles of Directors, Superviors and Senior Management

Guo Jun Yu, aged 36, graduated from Shanghai Medical University with a bachelor's degree. He has a professional pharmacist qualification. He is currently the assistant to general manager and deputy manager of Medicine Distribution Business Unit of Shanghai Pharmaceutical Holdings Ltd, where he has been working for nearly 10 years. He's very experienced on sales and management of medical products. He was appointed as a non-executive Director in June 2005.

Hao Hong Quan, aged 53, Senior International Business Specialist, graduated from Renmin University of China with a master's degree in investment analysis, is the Vice General Manager of Genertec Pharmaceutical Holding, Ltd. He worked previously as the Vice General Manager of JXPR Compressor Co. Ltd, chairing Vice General Manager of CNTIC Development Co. Ltd, chairing Vice General Manager of Genertec Industrial Co. Ltd, Vice General Manager of China National Technical Import & Export Corporation (CNTIC), and Vice General Manager of Assets Management Department of China General Technology (Group) Holding, Ltd (Genertec). He was appointed as a non-executive Director in June 2007.

Zhu Ke Qin, aged 58, is a fellow researcher and senior engineer. He is currently the Assistant to President of Fudan University, a member of the University Council, the General Manager of Fudan Asset Management Co., Ltd, and the General Manager of Fudan Enterprise Development Co., Ltd. He used to be the Director of Fudan University General Office, the General Manager of Fudan Logistics Service Co., Ltd, and the Manager of Fudan Illumination Company. He has won the Top Award of State Scientific and Technology Progress, the Second Prize of Shanghai Scientific and Technology Progress, and the Magnolia Prize of Shanghai Educational Committee. He was appointed as a non-executive Director in May 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pan Fei, aged 54, is a professor at Shanghai University of Finance and Economics (上海財經大學). He graduated from Shanghai University of Finance and Economics with a doctorate degree in Accounting. He is an associate member of the American Lecture of Certified Public Accountants. He has published numerous articles in various financial and economics publications in the PRC and has got several awards. He was appointed as an independent non-executive Director in June 2003.

Cheng Lin, aged 47, is a professor in Shanghai University of Finance and Economics. He holds doctorate degree in economics from Shanghai University of Finance and Economics (上海財經大學). He has published numerous articles in various financial and economics publications in the PRC. He was appointed as an independent non-executive Director in July 2002.

Profiles of Directors, Superviors and Senior Management

Weng De Zhang, aged 47, is the President of a Sub-branch of Industrial Bank Co., Ltd. He graduated from Remin University of China (中國人民大學) and obtained a master's degree in business administration from Asia International Open University (Macau). He was the chief accountant of the Planning and Finance division of the Shanghai Electricity College. Later, he became an assistant director of audit and the financial controller of the Shanghai Electricity Hi-Tech United Company. He was appointed as an independent non-executive Director in June 2003.

SUPERVISORS

Zhu Zu Shun, aged 42, graduated from Tianjin University of Finance and Economics with a Master's degree. He has many years' experience engaging in finance and audit. He used to be the deputy general manager of the Audit Division of China National Machinery Imp. & Exp. Corp and the general manager of the Audit Division of China General Technology (Group) Holding, Ltd. He is currently the general manager of China General Technology (Group) Pharmaceutics Holding, Ltd. He was appointed as a supervisor representing shareholders in June 2006.

Bao Qi, aged 33, graduated from Fudan University and obtained a Bachelor's degree in law. She used to work in several law firms, and has several year's experience in legal affairs. Now, she is the Chief Legal Officer of Shanghai Pudong Science and Technology Investment Co. Ltd. She was appointed as a supervisor representing shareholders in June 2009.

Zhang Man Juan, aged 46, graduated from China Broadcast & Television University in finance and accounting. She used to be a deputy chief of the finance department of Shanghai Huaihai Medical Factory. She is currently the Manager of the Finance Department of the Company. She was appointed as a supervisor representing employees in June 2005.

Guo Yi Cheng, aged 64, graduated from Economic Management College of China Central Party School. He holds a researcher's qualification of Shanghai Academy of Social Sciences. He used to be deputy head of Economy Department of Shanghai Municipality Government Research Office, deputy general manager of Shanghai Pharmaceutical Co., Ltd., and the Director and Deputy General Manager of General Technology Group Pharmaceutical Holding Limited. He had been appointed as a supervisor between June 2005 and June 2006. He was re-appointed as an Independent supervisor in May 2008.

Profiles of Directors, Superviors and Senior Management

Xu Qing, aged 46, graduated from The Second Military Medical University and obtained a Ph.D degree. He did his postdoctoral research in H.Lee.Moffitt Tumor Center of University of South Florida as a visiting scholar. He used to serve as a deputy director, a deputy chief physician, and a deputy professor of the Tumor Internal Medicine Department of Chang Zheng Hospital of The Second Military Medical University. He is currently the deputy director of Oncology Department of Tongji University Medical School, deputy director of Tumor Institute of Tongji University Medical School, and director, deputy chief physician, and deputy professor of Tumor Internal Medicine Department of the Tenth People's Hospital affiliated to Tongji University. He's been engaged in the fundamental and clinical research on tumor for a long term. He has published over 20 articles on medical journals from domestic and abroad. He was appointed as an Independent supervisor in May 2008.

SENIOR MANAGEMENT

Liu Yan Jun, aged 45, is a deputy general manager of the company. He obtained a bachelor's degree from the Navy Medical Department and a master's degree in Hepatobiliary Surgery of the Second Military Medical University and a Ph.D. from Eastern hospital of Hepatobiliary Surgery, the Second Military Medical University. He was formerly a visiting scholar at the Sidney Kimmel Tumor Centre of California University in the United States. He was employed as an officer and associate professor of the research department in the Molecular Biology department, Cancer Institute, the Second Military Medical University. He joined the Company in January 2001.

Li Jun, aged 42, is a deputy general manager of the Company. He graduated form Fudan University with a master's degree in biology. He has been responsible for several research projects of the State Natural Science Fund, and has published numerous articles. He is currently responsible for the R&D of photodynamic project. He is a certified pharmacist. He joined the Company in November 1996.

Yang Xiao Lin, aged 47, is a deputy general manager of the Company. He graduated from Chinese Academy of Social Sciences with an MBA degree. He has participated in and been in charge of several M&A projects for pharmaceutical companies. He has also been responsible for marketing and selling prescribed and OTC medicine in many sectors, and has obtained good results. He used to be a regional sales manager of GlaxoSmithKline, Marketing Director of Fosun Pharmaceutical Group, and General Manager of Zhejiang Kanglaite Pharmaceutical Co., Ltd. He joined the Company in January 2006.

COMPANY SECRETARY

Wang Rui, aged 36, is the Chief Financial Officer, Company Secretary and an authorized representative of the company. She obtained her bachelor's degree from Tongji University, Shanghai PRC and her MBA from Oxford Brookes University, UK. She is a fellow of The Association of Chartered Certified Accountants. She used to work in Zhangjiang High-tech Park for a number of years, responsible for project management and strategic planning. She has also worked in London, UK as an auditor in an accountancy firm. She joined the Company in November 2003.

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of 上海復旦張江生物醫藥股份有限公司 (Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.) (the "Company", and together with its subsidiaries, the "Group") will be held at No. 308 Cailun Road, Zhangjiang Hi-teck Park, Pudong, Shanghai, the PRC on Friday, 11 June 2010 at 10:00 a.m. for the following purposes:

As ordinary resolutions:

1. To consider and approve the report of the Directors for the year ended 31 December 2009.

2. To consider and approve the report of the Supervisory Committee for the year ended 31 December 2009.

3. To consider and approve the audited consolidated financial statements and the report of the auditor for the year ended 31 December 2009.

4. To consider and approve the profit distribution plan for the year ended 31 December 2009, and the final dividend distribution plan for the year ended 31 December 2009 (if any), and to authorize the board for the distribution of the final dividends (if any) to the Company's shareholders.

   The Board does not propose any dividends for the year ended 31 December 2009.

5. To consider and approve the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the international and the statutory auditors of the Group, respectively, for the year 2010 and to authorize the Board to determine their remunerations.

6. To consider and approve the remuneration policies for the Directors and Supervisors of the Company for the year ended 31 December 2009 and to authorize the Board to implement such remuneration policies.

   Basic salaries of the Executive Directors would be increased by approximately 35%, and their bonuses are subject to approval by the Remuneration Committee. The Independent Non-executive Directors' fees would be increased by approximately 33% to RMB80,000 per person per annum. The Independent Supervisors' fees would be increased by approximately 30% to RMB65,000 per person per annum. All other Directors and Supervisors are not paid any emoluments.

7. To consider and, if thought fit, approve the following by way of a special resolution:

   THAT:

   (1) there be granted to the Board of Directors of the Company an unconditional general mandate to issue, allot and deal with additional shares in the capital of the Company (whether domestic shares and/or H shares) and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:

      (a) such mandate shall not extend beyond the Relevant Period save that the Board of the Company may make or grant offers, agreements or options during the Relevant Period which might require the exercise of such powers after the end of the Relevant Period;

(b) the aggregate nominal amount of shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Board of the Company otherwise than pursuant to the share option scheme adopted by the Company for the grant or issue of shares of the Company, shall not exceed:

(i) 20 per cent of the aggregate nominal amount of Domestic Shares of the Company in issue; and/or

(ii) 20 per cent of the aggregate nominal amount of H Shares of the Company in issue, in each case as at the date of this Resolution; and

(c) the Board of Directors will only exercise its power under such mandate in accordance with the Company Law of the PRC and the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (as the same may be amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities are obtained;

For the purposes of this Resolution:

"Domestic Shares" means the domestic invested shares in the share capital of the Company, with a nominal value of RMB0.10 each, which are subscribed for by PRC investors and held in RMB;

"H Shares" means the overseas-listed foreign invested shares in the share capital of the Company, with a nominal value of RMB0.10 each, which are held and traded in Hong Kong dollars;

"Relevant Period" means the period from the date of passing this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company following the passing of this Resolution; or

(b) the expiry date of the 12-month period following the passing of this Resolution; or

(c) the passing of a special resolution of the Company in general meeting revoking or varying the authority set out in this Resolution.

(2) Provided that the Board resolves to issue shares pursuant to paragraph (1) of this Resolution, authorize the Board:

(a) to approve, enter into, procure to enter into and engage in all documents, agreements and matters which it deems to be in connection with the issue of such new shares, including but not limited to the time and place for such issue, to make all necessary applications to the relevant authorities, to enter into underwriting agreement (or any other agreements);

(b) to determine the use of proceeds and to make necessary filings and registration with the PRC, Hong Kong and other relevant authorities;

(c) to make amendments to the Articles of Association as deemed appropriate for the increase of the Company's registered capital and to reflect the new share capital structure of the Company under the intended allotment and issue of the Shares of the Company pursuant to the resolution under paragraph (1) of this resolution.

As an ordinary resolution:

8. To consider and approve any written resolution (if any) raised by shareholders having voting rights of 5% or more at the meeting.

By Order of the Board
Wang Hai Bo
Chairman

As at the date thereof, the Board comprises:

Mr. Wang Hai Bo *(Executive Director)*
Mr. Su Yong *(Executive Director)*
Mr. Zhao Da Jun *(Executive Director)*
Ms. Fang Jing *(Non-executive Director)*
Mr. Zhou Jie *(Non-executive Director)*
Mr. Guo Jun Yu *(Non-executive Director)*
Mr. Hao Hong Quan *(Non-executive Director)*
Mr. Zhu Ke Qin *(Non-executive Director)*
Mr. Pan Fei *(Independent Non-executive Director)*
Mr. Cheng Lin *(Independent Non-executive Director)*
Mr. Weng De Zhang *(Independent Non-executive Director)*

Shanghai, the PRC
23 March 2010

Notice of the Annual General Meeting

Notes:

A) The register of holders of H Shares of the Company will be closed from Wednesday, 12 May 2010 to Friday, 11 June 2010 (both days inclusive) during which period no transfer of H shares will be registered. Any holder of the H Shares of the Company and whose name appearing in the Company's register of holders of H Shares with Computershare Hong Kong Investor Services Limited at the close of business hours on Tuesday, 11 May 2010 and have completed the registration process, will be entitled to attend the Annual General Meeting.

Address of Computershare Hong Kong Investor Services Limited is as follows:

Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

(B) Holders of H Shares, who intend to attend the Annual General Meeting, must complete and return the reply slip to the Secretary to the Board of the Company not later than 20 days before the date of the Annual General Meeting, that is, before Friday, 21 May 2010.

Details of the Office of the Secretary to the Board of the Company are as follows:

No. 308 Cailun Road
Zhangjiang Hi-tech Park
Pudong District
Shanghai, The PRC
Post Code: 201210
Tel : 86-21-5855 3628
Fax : 86-21-5855 3893

(C) Holder of H Shares entitled to attend the Annual General Meeting and having voting rights is entitled to appoint in writing one or more persons as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. For shareholders appointing more than one proxy, their proxies may exercise the voting rights by polling only. Shareholders who intend to appoint one or more proxies should first read the 2009 Annual Report of the Company.

(D) The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorized in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorizing such attorney or other authorization documents must be notarized.

(E) To be valid, holders of H Shares must lodge the proxy form, and if the proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, the address of which is listed in Note (A) above, not less than 24 hours before the time of holding of the Annual General Meeting, in order for such documents to be valid.

(F) Each holder of Domestic Shares is entitled to appoint in writing one or more persons as their proxies to attend and vote on its behalf at the Annual General Meeting. A proxy need not be a member of the Company. Notes (C) and (D) are also applicable to holders of Domestic Shares. In order to be valid, their proxy forms and authorization documents which must be returned to the Secretary to the Board of the Company not less than 24 hours before the time of holding of the Annual General Meeting, the address of which is as indicated in Note (B) above, in order for such documents to be valid.

(G) If an attorney is appointed to attend the Annual General Meeting, such attorney must present its identity document and power of attorney or authorization document signed by the appointor or its legal representative, specifying the issue date of the document. If a holder of legal person shares appoint a company representative to attend the Annual General Meeting, such representative must present his identity document and notarially certified copy of the resolution passed by the board or other authority or notarially certified copy of the license issued by the holder of the legal person shares.

(H) The Annual General Meeting is anticipated to last for half a day. Shareholders attending in the meeting should be responsible for their own transportation and accommodation expenses.

Independent Auditor's Report

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

TO THE SHAREHOLDERS OF
SHANGHAI FUDAN-ZHANGJIANG BIO-PHARMACEUTICAL CO., LTD.
(a joint stock limited company incorporated in the People's Republic of China)

We have audited the consolidated financial statements of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 57 to 118, which comprise the consolidated and Company balance sheets as of 31 December 2009, and the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31 December 2009 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December 2009	2008
Turnover	4	**61,905**	31,990
Cost of sales		**(16,185)**	(12,209)
Gross profit		**45,720**	19,781
Other income	5	**13,937**	9,703
Research and development costs		**(22,108)**	(16,004)
Distribution and marketing costs		**(30,483)**	(21,701)
Administrative expenses		**(11,848)**	(12,156)
Other operating expenses		**(268)**	(1,270)
Operating loss	6	**(5,050)**	(21,647)
Finance costs	7	**(2,545)**	(1,483)
Loss before income tax		**(7,595)**	(23,130)
Income tax expense	10	**(879)**	(1,069)
Loss for the year		**(8,474)**	(24,199)
Other comprehensive income / (loss)			
Available-for-sale investments	22	**959**	(959)
Total comprehensive loss for the year		**(7,515)**	(25,158)
Loss attributable to:			
Shareholders of the Company		**(7,320)**	(23,402)
Minority interests		**(1,154)**	(797)
		(8,474)	(24,199)
Total comprehensive loss attributable to:			
Shareholders of the Company		**(6,438)**	(24,284)
Minority interests		**(1,077)**	(874)
		(7,515)	(25,158)
Basic and diluted loss per share for loss attributable to the shareholders of the Company (RMB)	14	**(0.0103)**	(0.0330)

The notes on pages 62 to 118 are an integral part of these financial statements.

Consolidated Balance Sheet of the Group and Balance Sheet of the Company

As of 31 December 2009
(All amounts are shown in RMB thousands unless otherwise stated)

		Group		Company	
		As of 31 December		As of 31 December	
	Notes	**2009**	2008	**2009**	2008
Non-current assets					
Leasehold land payments	15	**42,799**	10,932	**10,690**	10,932
Property, plant and equipment	16	**74,334**	60,695	**46,957**	59,022
Prepayment for construction	17	**27,652**	—	**—**	—
Technical know-how	18	**110**	246	**74**	203
Deferred costs	19	**5,565**	6,262	**5,565**	6,262
Investments in subsidiaries	20	**—**	—	**71,365**	72,009
Investment in an associate	21	**—**	—	**—**	—
Available-for-sale investments	22	**129**	2,442	**42**	288
Deferred income tax assets	23	**3,856**	4,735	**3,856**	4,735
		154,445	85,312	**138,549**	153,451
Current assets					
Inventories	24	**14,625**	12,173	**14,625**	11,608
Trade receivables	25	**26,929**	9,880	**26,929**	9,880
Other receivables, deposits and prepayments		**1,028**	1,148	**806**	1,005
Assets held-for-sale	26	**14,906**	—	**14,906**	—
Amount due from a shareholder	27	**—**	588	**—**	588
Amounts due from subsidiaries	28	**—**	—	**6,802**	1,920
Cash and cash equivalents	29	**86,898**	49,351	**44,544**	16,222
		144,386	73,140	**108,612**	41,223
Total assets		**298,831**	158,452	**247,161**	194,674
Non-current liabilities					
Borrowings	30	**13,330**	—	**13,330**	—
Loans from government authorities	31	**31,000**	31,000	**21,000**	21,000
Deferred revenue	33	**14,118**	—	**14,118**	—
		58,448	31,000	**48,448**	21,000

Consolidated Balance Sheet of the Group and Balance Sheet of the Company

As of 31 December 2009
(All amounts are shown in RMB thousands unless otherwise stated)

		Group		Company	
		As of 31 December		As of 31 December	
	Notes	**2009**	2008	**2009**	2008
Current liabilities					
Trade payables	32	**1,342**	1,177	**1,141**	2,538
Other payables and accruals		**22,576**	11,947	**22,152**	6,193
Deferred revenue	33	**11,703**	7,463	**7,129**	1,989
Loans from government authorities	31	**1,650**	1,650	**1,650**	1,650
Amount due to a subsidiary	34	**—**	—	**—**	281
Amount due to a shareholder	35	**1,500**	1,500	**1,500**	1,500
Amount due to a related party	36	**14,574**	7,832	**14,574**	7,832
Borrowings	30	**18,670**	20,000	**18,670**	20,000
		72,015	51,569	**66,816**	41,983
Total liabilities		**130,463**	82,569	**115,264**	62,983
Capital and reserves attributable to shareholders of the Company					
Share capital	37	**71,000**	71,000	**71,000**	71,000
Reserves	38	**64,689**	2,587	**60,897**	60,691
		135,689	73,587	**131,897**	131,691
Minority interests		**32,679**	2,296	**—**	—
Total equity		**168,368**	75,883	**131,897**	131,691
Total equity and liabilities		**298,831**	158,452	**247,161**	194,674
Net current assets/(liabilities)		**72,371**	21,571	**41,796**	(760)
Total assets less current liabilities		**226,816**	106,883	**180,345**	152,691

The notes on pages 62 to 118 are an integral part of these financial statements.

Wang Hai Bo
Director

Zhao Da Jun
Director

23 March 2010

Consolidated Cash Flow Statement

For the year ended 31 December 2009

(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December 2009	2008
Operating activities			
Cash generated from/(used in) operations	39	**9,863**	(14,866)
Interest paid		**(2,545)**	(1,483)
Interest received		**406**	459
Net cash generated from/(used in) operating activities		**7,724**	(15,890)
Investing activities			
Purchase of property, plant and equipment		**(54,809)**	(2,916)
Payment of leasehold land		**(982)**	—
Purchase of technical know-how		**(25)**	—
Purchase of available-for-sales investments		**(6,568)**	(10,627)
Addition of deferred development cost		**—**	(3,794)
Withdrawal of term deposits with maturities of three to twelve months		**—**	10,000
Interest received from term deposits with maturities of three to twelve months		**—**	127
Proceeds from disposal of property, plant and equipment		**27**	29
Proceeds from disposal of available-for-sale investments		**11,364**	6,199
Net cash used in investing activities		**(50,993)**	(982)
Financing activities			
Capital contribution to a subsidiary by minority interests		**68,816**	30,000
Loans from government authorities		**—**	10,000
Proceeds from borrowings		**32,000**	—
Repayments of borrowings		**(20,000)**	—
Net cash generated from financing activities		**80,816**	40,000
Net increase in cash and cash equivalents		**37,547**	23,128
Cash and cash equivalents at beginning of the year		**49,351**	26,280
Exchange losses on cash and cash equivalents		**—**	(57)
Cash and cash equivalents at end of the year	29	**86,898**	49,351

The notes on pages 62 to 118 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009
(All amounts are shown in RMB thousands unless otherwise stated)

	Attributable to shareholders of the Company					
	Share capital (Note 37)	**Capital accumulation reserve** (Note 38)	**Statutory common reserve fund** (Note 38)	**Accumulated losses** (Note 38)	**Minority interests**	**Total equity**
At 1 January 2008	71,000	115,014	2,829	(118,785)	983	71,041
Comprehensive loss						
Loss for the year 2008	—	—	—	(23,402)	(797)	(24,199)
Other comprehensive loss						
Available-for-sale investment (Note 22)	—	(882)	—	—	(77)	(959)
Total comprehensive loss	—	(882)	—	(23,402)	(874)	(25,158)
Transactions with owners						
Capital contribution to a subsidiary by minority interests	—	27,813	—	—	2,187	30,000
Total transactions with owners	—	27,813	—	—	2,187	30,000
At 31 December 2008	71,000	141,945	2,829	(142,187)	2,296	75,883
Comprehensive loss						
Loss for the year 2009	—	—	—	(7,320)	(1,154)	(8,474)
Other comprehensive income						
Available-for-sale investment (Note 22)	—	882	—	—	77	959
Total comprehensive loss	—	882	—	(7,320)	(1,077)	(7,515)
Transactions with owners						
Capital contribution to a subsidiary by minority interests	—	68,540	—	—	31,460	100,000
Total transactions with owners	—	68,540	—	—	31,460	100,000
At 31 December 2009	71,000	211,367	2,829	(149,507)	32,679	168,368

The notes on pages 62 to 118 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts are shown in RMB thousands unless otherwise stated)

1 BACKGROUND INFORMATION

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") was established in the People's Republic of China ("PRC") on 11 November 1996 as a limited liability company with an initial registered capital of RMB5,295,000.

Pursuant to a series of capital injections on 10 November 1997, 11 May 2000, and 12 September 2000 from the existing or the then existing shareholders of the Company and the capitalisation of reserves of the Company on 11 December 1997 and 20 October 2000, the registered capital of the Company was increased from RMB5,295,000 to RMB53,000,000.

On 8 November 2000, the Company was transformed into a joint stock company with limited liability.

On 20 January 2002, all of the shares of the Company, being 53,000,000 ordinary shares with a par value of RMB1.00 each, were subdivided into 530,000,000 ordinary shares ("Domestic Shares") with a par value of RMB0.10 each.

On 13 August 2002, the trading of the newly issued 198,000,000 ordinary shares ("H shares") of RMB0.10 each of the Company commenced on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including 18,000,000 H Shares converted from Domestic Shares. Therefore, the registered capital of the Company was increased to RMB71,000,000.

As of 31 December 2009, the Company had direct interests of 68.75%, 65% and 69.77% in three subsidiaries, Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. ("Morgan-Tan"), Shanghai Ba Dian Medicine Co., Ltd. ("Ba Dian") and Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou Pharmaceutical"), respectively.

The Company and its subsidiaries (together, the "Group") are principally engaged in research, development and selling of self-developed bio-pharmaceutical know-how, carrying out contracted research for customers, manufacturing and selling of medical products and the provision of related ancillary services in the PRC.

The address of the Company's registered office is 308 Cailun Road, Zhangjiang Hi-Tech Park, Pudong, Shanghai, PRC.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements have been prepared under the historical cost convention, except that the available-for-sale investments are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

The following new standards, amendments to standards and interpretations are mandatory for accounting periods on or after 1 January 2009.

IAS 1 (Revised)	Presentation of financial statements
IAS 23 (Revised)	Borrowing costs
IAS 32 and IAS 1 (Amendment)	Puttable financial instruments and obligations arising on liquidation
IFRS 2 (Amendment)	Share-based payment
IFRS 7 (Amendment)	Financial Instruments – Disclosures (amendment)
IFRS 8	Operating segments
IFRS 1 and IAS 27 (Amendment)	Cost of an investment in a subsidiary, jointly controlled entity or associate
IFRIC-Int 13	Customer loyalty programmes
IFRIC-Int 15	Agreements for the construction of real estate
IFRIC-Int 16	Hedges of a net investment in a foreign operation
IFRIC-Int 9 and IAS 39 (Amendment)	Reassessment of embedded derivatives

The adoption of the above new standards, amendments to standards and interpretations did not have any significant impacts to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

The following new standards, amendments to standards and interpretations have been issued but are not effective and have not been early adopted. The directors anticipate that adoption of these standards, amendments to standards and interpretations will not result in substantial changes to the Group's accounting policies.

IAS 24 (Revised)	Related party disclosures
IAS 27 (Revised)	Consolidated and separate financial statements
IAS 32 (Amendment)	Classification of rights issue
IAS 39 (Amendment)	Eligible hedge items
IFRS 1 (Revised)	First-time adoption of IFRSs
IFRS 1 (Amendment)	Additional exemptions for first-time adopters
IFRS 2 (Amendments)	Group cash-settled share-based payment transactions
IFRS 3 (Revised)	Business combinations
IFRS 9	Financial Instruments
Amendment to IFRIC 14	Prepayments of a minimum funding requirement
IFRIC 17	Distribution of non-cash assets to owners
IFRIC 19	Extinguishing financial liabilities with equity instruments

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable, if applicable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Transaction with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For minority interests' capital contribution to a subsidiary which does not result in the change of control, the difference between the capital contributed and the relevant share of the carrying value of net assets of the subsidiary is recorded in capital accumulation reserve.

(d) Investments in associates

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheets, investments in associates are stated at cost less provision for impairment, if any. The results of associates are accounted for by the Company on the basis of dividends received or receivable, if applicable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company and presentation currency of the Group.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(f) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Property, plant and equipment

Property, plant and equipment include plant and machinery, furniture, fixtures and computer equipment and motor vehicles and are stated at historical cost less depreciation and impairment (if any).

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write off the cost of each asset to its residual value over its estimated useful life as follows:

Plant and machinery	5 to 20 years
Furniture, fixtures and computer equipment	5 to 8 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(i)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of comprehensive income.

Construction-in-progress represents properties under construction and is stated at cost less impairment. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Research and development

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects relating to the design and testing of the products for sales by the Group are recognised as deferred development costs when it is probable that the product will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit. The amortisation periods adopted do not exceed five years.

Costs incurred on development projects with an intention of outright sales as technology transfer are recognised as deferred development costs when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Upon entering into sales contracts, development costs that have been capitalised are transferred to contracted work-in-progress and recognised as costs of sales in accordance with the performance requirements and contractual terms as stated in the contracts.

Where an indication of impairment exists, the carrying amount of the deferred development costs is assessed and written down immediately to its recoverable amount.

Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(i) Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation, which are at least tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units"). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Leases

Leasehold land payments are up-front payments made to acquire long-term interests in the usage of land in the PRC. These payments are stated at cost and are amortised on a straight-line basis over the period of the lease.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). The cost of medical equipment held for sale comprises direct purchase costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses, and taking into account the related amortisation of deferred development costs charged during the year.

(l) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, short-term deposits in bank and other financial institutions and other short-term highly liquid investments with maturities of three months or less from the time of purchase.

(n) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(o) Retirement benefit costs

Contributions to retirement schemes for employees in accordance with local rules and regulations are expensed as incurred. Once the contributions have been paid, the Group has no further payment obligations.

(p) Assets held for sale

The assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

(q) Financial assets

The Group classifies its financial assets in the following categories: loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified and included in 'Trade receivables', 'Other receivables, deposits and prepayment' and 'Cash and cash equivalents' in the balance sheet (Notes 2(l) and 2(m)).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Financial assets *(continued)*

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as other income or expense.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Financial assets *(continued)*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets in impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. Impairment testing of trade receivables is described in Note 2(l).

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(s) Deferred revenue

Deferred revenue includes the proportion of contract revenues received from technology transfer that is related to future performance and the proportion of income relating to the unexpired period of the government grants and exclusive rights of products granted to customers. The recognition of deferred revenue refers to Note 2(t) and 2(v).

(t) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as other liabilities and are credited to the statement of comprehensive income on a straight line basis over the expected lives of the related assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Technical know-how

Expenditure to acquire technical know-how is capitalised and amortised using the straight-line method over its estimated useful life, ranging from 5 years to 10 years. Where an indication of impairment exists, the carrying amount of the acquired technical know-how is assessed and written down immediately to its recoverable amount.

(v) Revenue recognition

(i) Sales of medical products are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed. The provision of related ancillary services for the sales of medical products, if any, are recognised upon customer acceptance of the performance of services. Sales are shown net of sales taxes and discounts, and after eliminating sales within the Group.

(ii) Contract revenues from technology transfer are recognised over the fixed term of the contract or, where appropriate, as the related costs are incurred. Milestone payments in connection with research and development or commercialisation agreements are recognised when they are earned in accordance with the applicable performance requirements and contractual terms. Payments received that are related to future performance are deferred and recorded as revenues as they are earned over the specified future performance periods.

Subject to the terms as stated in the technology transfer agreements and the buyers' success in commercialisation of the technology being transferred, the Company may receive additional royalty income or profit sharing income in the future. The royalty income or sharing of profit are recognised when the right to receive the income is established.

(iii) Royalty income received from exclusive rights of products granted to customers are recognised over the period of the rights granted.

(iv) Other revenues earned by the Group are recognised on the following bases:

Interest income – on a time-proportion basis using the effective interest method.

Dividend income – when the shareholder's right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's and the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

(x) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. If the useful lives for property, plant and equipment had been 10% longer/shorter with all other variables held constant, loss for the year would have been RMB467,000 lower/higher.

Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(a) Critical accounting estimates and assumptions *(continued)*

(ii) Impairment of receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassess the provision on each of the balance sheet date. If the provision for impairment of trade and other receivables rate had been 10% higher/lower with all other variables held constant, loss for the year would have been RMB27,000 higher/lower.

(iii) Deferred income tax assets

The Group's management determines the deferred income tax assets based on the enacted or substantially enacted tax rates and best knowledge of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilised. Management will revise the assumptions and profit projections by the balance sheet date. If the forecasted profit before tax had been 10% higher/lower with all other variables held constant, loss for the year would have been RMB17,000 higher/lower .

(iv) Research and development

The Group's management determines the capitalisation of development costs based on their commercial and technological feasibility. It could change significantly as a result of technological innovations and the change of estimated profit projections.

Management will write off or write down deferred development costs when there are adverse changes in technological innovations or profit projections. Management assessed that there are no adverse changes that will cause deferred development costs as of 31 December 2009 to be written off or written down.

(b) Critical judgements in applying the Group's accounting policies

(i) Impairment of investments in subsidiaries and an associate

The Group follows the guidance of IAS36 to determine when investments in subsidiaries and an associate are impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(All amounts are shown in RMB thousands unless otherwise stated)

4 TURNOVER

The Group is principally engaged in research, development and selling of self-developed bio-pharmaceutical know-how, carrying out contracted research for customers, manufacturing and selling of medical products and the provision of related ancillary services in the PRC. Turnover recognised during the year are as follows:

	2009	2008
Sales of medical products and the provision of related ancillary services	**57,455**	31,902
Exclusive rights	**2,352**	—
Technology transfer revenue	**2,098**	88
	61,905	31,990

On 18 April 2009, the Company signed a contract with a pharmaceutical company to offer the exclusive distribution rights of Doxorubicin Liposome Injection products from the contract effective day to 31 December 2014, for a total consideration of RMB20,000,000, of which an amount of RMB2,352,000 is recognised as revenue in 2009.

On 20 March 2004, the Company signed a technology transfer contract with a Taiwanese pharmaceutical company to transfer Recombinant Human Soluble TNFR 75 Fusion Protein for a total consideration of RMB7,500,000, of which an amount of RMB2,000,000 is received and recognised as revenue in 2009 (2008: nil) as the Company completed the respective milestones of the transfer as specified in the contract and economic benefits associated with the completion had flowed to the Company. Pursuant to the contract, the Company is entitled to receive royalty payments from the Taiwanese pharmaceutical company equal to 6% of the future gross annual sales from the technology transferred. However, it is estimated that the Company will not receive any significant royalty payments in the near future as the related production has not commenced.

On 25 March 2002, the Company signed a technology transfer contract with a pharmaceutical company in Shandong Province to transfer Recombinant tissue type plasminogen activator (r-tPA) for a total consideration of RMB15,000,000. Pursuant to the contract, the Company is entitled to receive royalty payments from the pharmaceutical company equal to 2%-5% of the future gross annual sales over a period of the 5 years. The royalty payment of RMB98,000 was received and recognised as revenue in 2009 (2008: RMB88,000).

(All amounts are shown in RMB thousands unless otherwise stated)

5 OTHER INCOME

	2009	2008
Amortisation of government grants (Note 33)	**7,414**	9,069
Interest income	**406**	586
Profit on disposal of available-for-sale investments	**1,524**	—
Recognition of a non-refundable grant (Note (a))	**4,306**	—
Others	**287**	48
	13,937	9,703

(a) During the year, a subsidiary of the Company agreed with a third party company to terminate a research and development collaboration and accordingly recognised the previously received non-refundable grant related to such collaboration as an income.

(All amounts are shown in RMB thousands unless otherwise stated)

6 OPERATING LOSS

Operating loss is arrived at after charging/(crediting) the following items:

	2009	2008
Amortisation of leasehold land payments (Note15)	**299**	242
Less: amount capitalised in construction in progress	**(57)**	—
	242	242
Amortisation of deferred costs (included in 'Cost of sales') (Note19)	**1,697**	2,316
Amortisation of technical know-how (included in 'Research and development costs')	**143**	685
Amortisation of technical know-how (included in 'Administrative expenses')	**18**	80
	161	765
Auditors' remuneration	**1,021**	1,024
(Reversal of)/provision for impairment of receivables	**(109)**	439
Write-down of inventories	**886**	842
Cost of inventories sold	**15,324**	11,537
Depreciation of property, plant and equipment (Note16)	**5,142**	5,406
Less: amount capitalised in deferred development costs	**—**	(764)
	5,142	4,642
(Gains)/losses on disposal of property, plant and equipment	**(3)**	141
Exchange (gains)/losses on cash and cash equivalents (included in 'Other operating expenses')	**—**	57
Operating lease rentals in respect of land and buildings	**396**	396
Research and development costs, excluding employee benefit expenses	**14,353**	10,562
Employee benefit expenses (Note 8)	**25,146**	24,758
(Gains)/losses on disposal of available-for-sale investments	**(1,524)**	1,027
Marketing and sales promotion	**16,431**	5,381

(All amounts are shown in RMB thousands unless otherwise stated)

7 FINANCE COSTS

	2009	2008
Interest expense on bank borrowings wholly repayable within five years	**2,545**	1,483

8 EMPLOYEE BENEFIT EXPENSES

	2009	2008
Wages and salaries	**18,200**	19,104
Housing subsidies	**2,918**	2,485
Social security costs	**1,410**	1,364
Retirement benefit costs (Note 9)	**2,618**	2,407
Employee benefit expenses including directors' and supervisors' emoluments	**25,146**	25,360
Less: amount capitalised in deferred development costs	**—**	(602)
	25,146	24,758
The number of employees at the end of the year	**212**	216

9 RETIREMENT BENEFIT COSTS

The employees of the Group participate in a retirement benefit plan organised by the municipal government whereby the Group is required to make monthly contributions to the plan at a rate of 22% of the employees' total wages and salaries for the year, up to a maximum fixed monetary amount, as stipulated by the municipal government. The Group has no obligation for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. Expenses incurred by the Group in connection with the retirement benefit plan were RMB2,618,000 and RMB2,407,000 for the years ended 31 December 2009 and 31 December 2008, respectively.

(All amounts are shown in RMB thousands unless otherwise stated)

10 INCOME TAX EXPENSE

	2009	2008
Current income tax	—	—
Deferred tax charge (Note 23)	879	1,069
	879	1,069

Effective from 1 January 2008, the Company and its subsidiaries shall determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law") as approved by the National People's Congress on 16 March 2007.

Under the new CIT Law, as the Company was certified as a New and High Technology Enterprise, it is entitled to a reduced income tax rate of 15%. In 2009, the Company obtained an approval for a two-year full exemption of income tax from 2008 followed by a three-year 50% reduction.

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the tax rate in the PRC applicable to the Group as follows:

	2009	2008
Loss before income tax	7,595	23,130
Tax calculated at a tax rate of 15%	(1,139)	(3,470)
Effect of unrecognised tax losses of the Group	1,596	2,100
Effect of tax rate change	—	2,153
Effect of tax exemption	1,070	—
Utilisation of previously unrecognised tax losses	(2,820)	—
Expenses not deductible for tax purpose	2,172	286
Tax charge	879	1,069

(All amounts are shown in RMB thousands unless otherwise stated)

10 INCOME TAX EXPENSE *(continued)*

The tax (charge)/credit relating to components of other comprehensive income/(loss) is as follows:

	2009			2008		
	Before tax	**Tax charge**	**After tax**	Before tax	Tax charge	After tax
Fair value losses transfer from/(to) equity:						
–Available-for-sale investment	**959**	**—**	**959**	(959)	—	(959)
Other comprehensive income/(loss)	**959**	**—**	**959**	(959)	—	(959)

11 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB 93,000 (2008: Loss of RMB 12,304,000).

12 DIVIDENDS

At the meeting on 23 March 2010, the Board of Directors recommended not to distribute any dividends in respect of the year ended 31 December 2009.

At the shareholders' Annual General Meeting on 12 June 2009, it was resolved not to distribute any dividends in respect of the year ended 31 December 2008.

(All amounts are shown in RMB thousands unless otherwise stated)

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND HIGHEST PAID INDIVIDUALS

(i) Details of emoluments in respect of the executive directors and supervisors of the Company are as follows:

	2009	2008
Basic salaries and allowances	**1,212**	1,204
Bonus	**200**	110
Retirement benefit and social security costs	**134**	122
Fees	**100**	108
	1,646	1,544

RMB180,000 fees were paid and payable to the independent non-executive directors for the year (2008: RMB180,000).

All of the directors' and supervisors' emoluments are within the band of nil to HKD1,000,000 during the year. The emoluments in respect of executive directors, supervisors and independent non-executive directors are as follows:

	2009	2008
Executive director, Wang Hai Bo	**601**	595
Executive director, Su Yong	**526**	425
Executive director, Zhao Da Jun	**419**	416
Supervisor, Wei Dong Zhi	**—**	25
Supervisor, Ji Nuo	**—**	25
Supervisor, Guo Yi Cheng	**50**	29
Supervisor, Xu Qing	**50**	29
Independent non-executive director, Cheng Lin	**60**	60
Independent non-executive director, Pan Fei	**60**	60
Independent non-executive director, Weng De Zhang	**60**	60
	1,826	1,724

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND HIGHEST PAID INDIVIDUALS *(continued)*

(ii) The five individuals whose emoluments were the highest in the Group are as follows:

	2009	2008
Directors	**3**	3
Non-directors	**2**	2
	5	5

(iii) Details of the emoluments in respect of the non-directors as mentioned above are as follows:

	2009	2008
Basic salaries and allowances	**771**	738
Bonus	**60**	60
Retirement benefit and social security costs	**82**	75
	913	873

The emoluments of each of the non-directors during the year were below HKD1,000,000.

(iv) During the years ended 31 December 2009 and 2008, no directors or any of the five highest paid individuals of the Company waived any emoluments and no emoluments have been paid or are payable by the Group to the directors or any of the five highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

14 LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2009	2008
Loss attributable to shareholders of the Company	**(7,320)**	(23,402)
Weighted average number of ordinary shares in issue (thousands)	**710,000**	710,000
Basic loss per share (RMB)	**(0.0103)**	(0.0330)

There is no difference between the basic and diluted loss per share for the years ended 31 December 2009 and 2008 as there were no dilutive potential ordinary shares during the years then ended.

(All amounts are shown in RMB thousands unless otherwise stated)

15 LEASEHOLD LAND PAYMENTS – GROUP AND COMPANY

Leasehold land payments represent the land use rights granted by the PRC government authority on the use of land within the pre-approved lease period.

	Group		Company	
	2009	2008	**2009**	2008
Net book value at beginning of the year	**10,932**	11,174	**10,932**	11,174
Additions	**32,166**	—	**—**	—
Amortisation	**(299)**	(242)	**(242)**	(242)
Net book value at end of the year	**42,799**	10,932	**10,690**	10,932

The original lease terms of the land use rights of the Group held in the PRC are 50 years, and the remaining lease period are 42 and 46 years.

As of 31 December 2009, bank borrowings and certain loans from government authorities were secured on leasehold land of the Company with a net book value of RMB4,391,000 (2008: RMB4,497,000) (Notes 30 and 31(b)).

(All amounts are shown in RMB thousands unless otherwise stated)

16 PROPERTY, PLANT AND EQUIPMENT

(i) The property, plant and equipment of the Group for the years ended 31 December 2009 and 31 December 2008 are as follows:

	Construction -in-progress	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Total
Cost					
At 1 January 2008	3,355	71,361	3,119	1,938	79,773
Additions	8,454	1,500	106	332	10,392
Transfers	(3,706)	3,706	—	—	—
Disposals	—	(125)	(293)	(244)	(662)
At 31 December 2008	8,103	76,442	2,932	2,026	89,503
Additions	32,902	139	153	762	33,956
Transfer to assets held-for-sale (Note 26)	(14,906)	—	—	—	(14,906)
Disposals	—	(269)	(124)	(408)	(801)
At 31 December 2009	26,099	76,312	2,961	2,380	107,752
Accumulated depreciation					
At 1 January 2008	—	21,211	1,536	1,147	23,894
Charge for the year	—	4,876	373	157	5,406
Disposals	—	(92)	(171)	(229)	(492)
At 31 December 2008	—	25,995	1,738	1,075	28,808
Charge for the year	—	4,629	377	136	5,142
Disposals	—	(36)	(104)	(392)	(532)
At 31 December 2009	—	30,588	2,011	819	33,418
Net book value					
At 31 December 2009	26,099	45,724	950	1,561	74,334
At 31 December 2008	8,103	50,447	1,194	951	60,695

(All amounts are shown in RMB thousands unless otherwise stated)

16 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(ii) The property, plant and equipment of the Company for the years ended 31 December 2009 and 31 December 2008 are as follows:

	Construction -in-progress	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Total
Cost					
At 1 January 2008	3,355	66,835	2,839	1,693	74,722
Additions	8,454	1,496	28	—	9,978
Transfers	(3,706)	3,706	—	—	—
Disposals	—	(103)	(209)	—	(312)
At 31 December 2008	8,103	71,934	2,658	1,693	84,388
Additions	6,803	127	118	762	7,810
Transfer to assets held-for-sale (Note 26)	(14,906)	—	—	—	(14,906)
Disposals	—	(250)	(78)	(408)	(736)
At 31 December 2009	—	71,811	2,698	2,047	76,556
Accumulated depreciation					
At 1 January 2008	—	18,271	1,333	940	20,544
Charge for the year	—	4,518	346	124	4,988
Disposals	—	(71)	(95)	—	(166)
At 31 December 2008	—	22,718	1,584	1,064	25,366
Charge for the year	—	4,306	333	74	4,713
Disposals	—	(27)	(61)	(392)	(480)
At 31 December 2009	—	26,997	1,856	746	29,599
Net book value					
At 31 December 2009	—	44,814	842	1,301	46,957
At 31 December 2008	8,103	49,216	1,074	629	59,022

(All amounts are shown in RMB thousands unless otherwise stated)

16 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(iii) As of 31 December 2009, bank borrowings and certain loans from government authorities were secured on plant and machinery of the Company with a net book value of RMB24,130,000 (2008: RMB18,633,000) (Notes 30 and 31(b)).

17 PREPAYMENT FOR CONSTRUCTION – GROUP

The balance at 31 December 2009 represents a prepayment for a construction project of a subsidiary.

18 TECHNICAL KNOW-HOW

	Group		Company	
	2009	2008	**2009**	2008
Cost				
At beginning of the year	**9,047**	9,047	**3,741**	3,741
Additions	**25**	—	**25**	—
Written off	**(5,250)**	—	**—**	—
At end of the year	**3,822**	9,047	**3,766**	3,741
Accumulated amortisation				
At beginning of the year	**8,801**	8,036	**3,537**	3,259
Charge for the year	**161**	765	**155**	279
Written off	**(5,250)**	—	**—**	—
At end of the year	**3,712**	8,801	**3,692**	3,538
Net book value				
At end of the year	**110**	246	**74**	203

(All amounts are shown in RMB thousands unless otherwise stated)

19 DEFERRED COSTS – GROUP AND COMPANY

	Deferred development costs	Deferred costs of exclusive rights	Total
Cost			
At 1 January 2008	14,365	—	14,365
Capitalisation of costs	3,794	—	3,794
At 31 December 2008	18,159	—	18,159
Capitalisation of costs	—	1,000	1,000
Written off	(11,873)	—	(11,873)
At 31 December 2009	6,286	1,000	7,286
Accumulated amortisation			
At 1 January 2008	9,581	—	9,581
Charge for the year	2,316	—	2,316
At 31 December 2008	11,897	—	11,897
Charge for the year	1,580	117	1,697
Written off	(11,873)	—	(11,873)
At 31 December 2009	1,604	117	1,721
Net book value			
At 31 December 2009	4,682	883	5,565
At 31 December 2008	6,262	—	6,262

(All amounts are shown in RMB thousands unless otherwise stated)

20 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2009	2008
Unlisted equity investments, at cost		
At beginning and end of the year	**75,250**	75,250
Impairment charge		
At beginning of the year	**(3,241)**	(3,241)
Additions	**(644)**	—
At end of the year	**(3,885)**	(3,241)
Net book value		
At end of the year	**71,365**	72,009

(All amounts are shown in RMB thousands unless otherwise stated)

20 INVESTMENTS IN SUBSIDIARIES – COMPANY *(continued)*

As of 31 December 2009, the Company held the following investments in subsidiaries which are all limited liability companies:

Name	Country and date of establishment	Registered capital	Attributable equity interest %	Principal activities and place of operation
Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. (上海摩根談國際生命科學中心有限公司)	PRC 31 August 1998	RMB8,000,000	68.75	Research and development ("R&D") of specialised bio-pharmaceutical projects and provision of related services in the PRC
Shanghai Ba Dian Medicine Co., Ltd. (上海靶點葯物有限公司)	PRC 4 June 2003	RMB15,000,000	65	Development of biological and medical technology, the provision of related R&D services and the sale of intermediary products in the PRC
Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. (泰州复旦張江葯業有限公司)	PRC 13 March 2007	RMB86,000,000	69.77	Research and development ("R&D")of pharmaceutical instruments and projects and medical provision of related services in the PRC

(All amounts are shown in RMB thousands unless otherwise stated)

21 INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2009	2008	**2009**	2008
Unlisted equity investments, at cost				
At beginning and end of the year	**7,200**	7,200	**7,200**	7,200
Share of results				
At beginning and end of the year	**(6,867)**	(6,867)		
Impairment charge				
At beginning and end of the year	**(333)**	(333)	**(7,200)**	(7,200)
Net book value				
At end of the year	**—**	—	**—**	—

During the year, the Company held the following investment in an associate:

Name	**Country and date of establishment**	**Registered capital**	**Attributable equity interest %**	**Principal activities and place of operation**
Lead Discovery Limited Company ("Lead Discovery") (上海先導葯業有限公司)	PRC 27 November 2002	RMB30,000,000	24	High throughput screening of new drugs, R&D of "me-too" and natural drug technologies in the PRC

The assets, liabilities, revenues and comprehensive loss of the associate are as below:

	Assets	**Liabilities**	**Revenues**	**Comprehensive loss**
2009	**2,141**	**2,452**	**155**	**(859)**
2008	2,885	2,337	38	(838)

(All amounts are shown in RMB thousands unless otherwise stated)

22 AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2009	2008	**2009**	2008
At beginning of the year	**2,442**	—	**288**	—
Additions	**6,568**	10,627	**2,492**	7,627
Fair value losses transfer from/(to) equity	**959**	(959)	**113**	(113)
Disposals	**(9,840)**	(7,226)	**(2,851)**	(7,226)
At end of the year	**129**	2,442	**42**	288
Listed equity investments, at fair value	**129**	2,442	**42**	288

23 DEFERRED INCOME TAX ASSETS – GROUP AND COMPANY

	2009	2008
Deferred tax assets:		
– Deferred tax asset to be recovered after more than one year	**3,205**	5,105
– Deferred tax asset to be recovered within one year	**792**	—
	3,997	5,105
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than one year	**(86)**	(180)
– Deferred tax liabilities to be recovered within one year	**(55)**	(190)
	(141)	(370)
Deferred tax assets (net)	**3,856**	4,735

(All amounts are shown in RMB thousands unless otherwise stated)

23 DEFERRED INCOME TAX ASSETS – GROUP AND COMPANY *(continued)*

The gross movement in deferred income tax account is as follows:

	2009	2008
Deferred income tax assets (on net basis)		
At beginning of the year	**4,735**	5,804
Charged to income tax expense (Note 10)	**(879)**	(1,069)
At end of the year	**3,856**	4,735

A potential deferred income tax asset, which represents mainly temporary difference arising from tax losses carried forward and unrealised profits on intra-group transactions, has not been recognised in the consolidated financial statements as, in the opinion of the directors, it is uncertain that such asset will be realised in the foreseeable future. The tax losses and unrealised profits not recognised by the Group amounted to RMB92,137,000 and RMB104,830,000 as of 31 December 2009 and 31 December 2008. The tax losses will expire within five years from the respective balance sheet date and it is expected that the Group will not be able to utilise them to offset against future taxable profits before they expire. It is uncertain whether or not the unrealised profits on intra-group transactions will become realised, hence it is expected that the Group will not be able to utilise the respective tax deduction in the foreseeable future.

(All amounts are shown in RMB thousands unless otherwise stated)

23 DEFERRED INCOME TAX ASSETS – GROUP AND COMPANY *(continued)*

The movement in deferred income tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the year is as follows:

Deferred income tax liabilities (on gross basis)

	Deferred development costs
At 1 January 2008	(951)
Credited to income tax expense	581
At 31 December 2008	(370)
Credited to income tax expense	229
At 31 December 2009	(141)

Deferred income tax assets (on gross basis)

	Provisions	Tax losses	Total
At 1 January 2008	680	6,075	6,755
Credited/(charged) to income tax expense	218	(1,868)	(1,650)
At 31 December 2008	898	4,207	5,105
Charged to income tax expense	(181)	(927)	(1,108)
At 31 December 2009	717	3,280	3,997

(All amounts are shown in RMB thousands unless otherwise stated)

24 INVENTORIES

	Group		Company	
	2009	2008	**2009**	2008
Raw materials	**3,003**	2,570	**3,003**	2,570
Production supplies and consumables	**374**	302	**374**	302
Work in progress	**212**	1,093	**212**	1,093
Finished goods	**7,621**	4,653	**7,621**	4,088
Medical equipment held for sale	**3,415**	3,555	**3,415**	3,555
	14,625	12,173	**14,625**	11,608

During the year, the write-down on inventories to the net realisable value was RMB886,000 (2008: RMB842,000).

25 TRADE RECEIVABLES – GROUP AND COMPANY

	2009	2008
Accounts receivables (Note(a))	**26,904**	9,104
Notes receivable (Note(b))	**25**	776
	26,929	9,880

(a) Details of the aging analysis of accounts receivable are as follows:

	2009	2008
Current to 30 days	**10,059**	4,073
31 days to 60 days	**7,176**	1,372
61 days to 90 days	**3,518**	1,204
Over 90 days but less than one year	**6,424**	2,552
Over one year	**547**	2,095
	27,724	11,296
Less: provision for impairment	**(820)**	(2,192)
	26,904	9,104

(All amounts are shown in RMB thousands unless otherwise stated)

25 TRADE RECEIVABLES – GROUP AND COMPANY *(continued)*

(a) Details of the aging analysis of accounts receivable are as follows: *(continued)*

Customers are generally granted credit term of 90 days.

As of 31 December 2009 and as of 31 December 2008, the accounts receivables aging over one year were fully impaired.

As of 31 December 2009, accounts receivable of RMB547,000 (2008: RMB2,095,000) were individually impaired. The individually impaired receivables mainly relate to customers, which are in unexpected difficult economic situations. The other overdue receivables were assessed that a portion of these receivables is expected to be recovered. The ageing of these receivables is as follows:

	2009	2008
Over 90 days but less than one year	**6,424**	2,552
Over one year	**547**	2,095
	6,971	4,647

Movements on the provision for impairment of accounts receivable are as follows:

	2009	2008
At beginning of the year	**2,192**	1,753
(Reversal of)/provision for impairment of receivables	**(109)**	439
Receivables written off during the year as uncollectible	**(1,263)**	—
At end of the year	**820**	2,192

The creation and release of provision for impaired receivables have been included in 'Administrative expenses' in the statement of comprehensive income (Note 6). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. Accounts receivable are unsecured and interest free.

(b) Notes receivable are all bank acceptance notes with maturities less than six months and have been fully settled after the year end.

(All amounts are shown in RMB thousands unless otherwise stated)

26 ASSETS HELD-FOR-SALE – GROUP AND COMPANY

The balance represents a construction project to be sold to Shanghai Qi Du Sci & Tech Development Co., Ltd. ("Qi Du") in 2010 (Note 44).

27 AMOUNT DUE FROM A SHAREHOLDER – GROUP AND COMPANY

The balance represents a trade balance due from Shanghai Pharmaceutical Co., Ltd. ("SPCL"), a shareholder of the Company and is unsecured, interest free and repayable within the credit term of 30 days.

28 AMOUNTS DUE FROM SUBSIDARIES – COMPANY

The balance represents amount due from Taizhou Pharmaceutical and Ba Dian, subsidiaries of the Company and is unsecured, interest free and repayable on demand.

29 CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
Cash and bank balances	**80,043**	48,282	**38,677**	15,153
Deposits in other financial institutions (Note (a))	**6,855**	1,069	**5,867**	1,069
	86,898	49,351	**44,544**	16,222
Maximum exposure to credit risk	**86,866**	49,334	**44,544**	16,222
Cash and bank balances denominated in				
– RMB	**86,891**	49,055	**44,537**	15,926
– Hong Kong Dollars ("HKD")	**7**	296	**7**	296
	86,898	49,351	**44,544**	16,222

(a) Deposits in other financial institutions can be withdrawn on demand with no restriction.

The effective interest rate on cash placed with banks and deposits in other financial institutions ranged from 0.36%-1.35% (2008: 0.72%-2.61%) per annum.

(All amounts are shown in RMB thousands unless otherwise stated)

30 BORROWINGS – GROUP AND COMPANY

	2009	2008
Non-current		
Long-term bank borrowings, secured	**20,000**	20,000
Less: current portion	**(6,670)**	(20,000)
	13,330	—
Current		
Short-term bank borrowings, secured	**12,000**	—
Current portion of long-term bank borrowings, secured	**6,670**	20,000
	18,670	20,000

Long-term bank borrowings of RMB20,000,000 as of 31 December 2009 bear an interest rate of 5.24% annually, among which RMB6,670,000 are due for repayment on 22 October 2010, RMB6,670,000 are due for repayment on 22 October 2011, and RMB 6,660,000 are due for repayment on 22 October 2012. The borrowings were secured by the leasehold land, plant and machinery of the Company (Notes 15 and 16).

Short-term bank borrowings of RMB12,000,000 as of 31 December 2009 are due for repayment on 2 September 2010, and bear an interest rate of 5.73% annually. The borrowings were denominated in RMB and are guaranteed by a third party company. Such guarantee was secured by the pledge of new drug certificates and the contract of exclusive rights granted to a customer.

Long-term bank borrowings of RMB20,000,000 as of 31 December 2008 were repaid on 10 July 2009, which bore an interest rate of 7.56% (2008: ranging from 6.75% to 7.56%) annually. The borrowings were denominated in RMB and an amount of RMB18,000,000 is guaranteed by a third party company. Such guarantee was secured by the leasehold land, plant and machinery of the Company (Notes 15 and 16).

(All amounts are shown in RMB thousands unless otherwise stated)

30 BORROWINGS – GROUP AND COMPANY *(continued)*

The carrying amount and the fair value of the borrowings are as follows:

	Carrying amount		Fair value	
	2009	2008	**2009**	2008
Long-term bank borrowings	**20,000**	20,000	**19,947**	20,000

The fair values of short-term borrowings equal their carrying amount, as the impact of discounting is not significant.

Fair value is based on cash flows discounted using a rate of 5.40% based on the market rate published by People's Bank of China as of 31 December 2009 (2008: 5.40%).

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

	2009	2008
Within one year	**20,000**	20,000

(All amounts are shown in RMB thousands unless otherwise stated)

31 LOANS FROM GOVERNMENT AUTHORITIES

The loans from government authorities are repayable as follows:

	Group		Company	
	2009	2008	**2009**	2008
Current (Note (a))	**1,650**	1,650	**1,650**	1,650
Non-current (Note (b))	**31,000**	31,000	**21,000**	21,000
	32,650	32,650	**22,650**	22,650

(a) The loans represent government assistance from several PRC government authorities and are unsecured and interest free. All of the loans as of 31 December 2009 are repayable on demand.

(b) On 6 July 2007 and 1 March 2006, the Company entered into entrusted loan contracts with a company under the supervision of the Shanghai municipal government. Pursuant to the contracts, loans of RMB10,000,000 and RMB11,000,000 were granted to the Company as government assistance respectively, both of which are due for repayment on 31 December 2011.

Variable interest payment of the aforementioned loans are determined depending on when the loans are settled:

(i) If the principal is fully repaid before 31 December 2009, no interest will be borne by the Company;

(ii) If the principal is repaid between 1 January 2010 to 31 December 2010, the Company should bear the interest relating to the period from 1 January 2009 to 31 December 2010 in respect of the unpaid principal balance as of 1 January 2010 with an interest rate equal to the interest rate stipulated by the People's Bank of China with substantially the same terms and characteristics at the respective date; and

(iii) If the principal is repaid between 1 January 2011 to 31 December 2011, the Company should bear the interest relating to the period from 1 January 2009 to 31 December 2011 in respect of the unpaid principal balance as of 1 January 2011 with an interest rate equal to the interest rate stipulated by the People's Bank of China with substantially the same terms and characteristics at the respective date plus a mark up of 5% of the stipulated rate.

(All amounts are shown in RMB thousands unless otherwise stated)

31 LOANS FROM GOVERNMENT AUTHORITIES *(continued)*

In accordance with the Company's business forecast, the principal is expected to be repaid in 2011, interest rate beared in 2009 is 5.67%.

The aforementioned loans from government authorities are secured by the leasehold land and plant and machinery of the Company (Notes 15 and 16).

On 2 February 2008, Taizhou Pharmaceutical entered into entrusted loan contracts with Jiangsu Science and Technology Department. Pursuant to the contracts, loan of RMB 10,000,000 was granted to Taizhou Pharmaceutical as government assistance, which is due for repayment on 27 May 2011. The loan from government authority is unsecured and interest free.

The carrying amount and the fair value of the loans from government authorities of the Group are as follows:

	Carrying amount		**Fair value**	
	2009	2008	**2009**	2008
Loans from government authorities	**31,000**	31,000	**30,334**	29,901

The carrying amount and the fair value of the loans from government authorities of the Company are as follows:

	Carrying amount		**Fair value**	
	2009	2008	**2009**	2008
Loans from government authorities	**21,000**	21,000	**21,107**	21,156

The fair values of current loans from government authorities equal their carrying amount, as the impact of discounting is not significant.

Fair value is based on cash flows discounted using a rate of 5.40% based on the market rate published by People's Bank of China as of 31 December 2009 (2008: 5.40%).

(All amounts are shown in RMB thousands unless otherwise stated)

32 TRADE PAYABLES

Details of the aging analysis are as follows:

	Group		Company	
	2009	2008	**2009**	2008
Current to 30 days	**636**	437	**636**	217
31 days to 60 days	**146**	112	**146**	112
61 days to 90 days	**62**	55	**62**	55
Over 90 days but less than one year	**165**	25	**166**	307
Over one year	**333**	548	**131**	1,847
	1,342	1,177	**1,141**	2,538

Trade payables are unsecured and interest-free.

33 DEFERRED REVENUE

	Group		Company	
	2009	2008	**2009**	2008
Government grants	**8,173**	7,463	**3,599**	1,989
Exclusive rights granted to a customer	**17,648**	—	**17,648**	—
	25,821	7,463	**21,247**	1,989
Less: amount to be realised within one year	**(11,703)**	(7,463)	**(7,129)**	(1,989)
	14,118	—	**14,118**	—

(All amounts are shown in RMB thousands unless otherwise stated)

33 DEFERRED REVENUE *(continued)*

(i) The deferred revenue of the Group for the years ended 31 December 2009 and 31 December 2008 are as follows:

	Government grants	Exclusive rights	Total
At 1 January 2008	3,858	—	3,858
Additions	12,674	—	12,674
Transfer to income	(9,069)	—	(9,069)
At 31 December 2008	7,463	—	7,463
Additions	8,124	20,000	28,124
Transfer to income	(7,414)	(2,352)	(9,766)
At 31 December 2009	8,173	17,648	25,821

(ii) The deferred revenue of the Company for the years ended 31 December 2009 and 31 December 2008 are as follows:

	Government grants	Exclusive rights	Total
At 1 January 2008	3,135	—	3,135
Additions	4,853	—	4,853
Transfer to income	(5,999)	—	(5,999)
At 31 December 2008	1,989	—	1,989
Additions	4,584	20,000	24,584
Transfer to income	(2,974)	(2,352)	(5,326)
At 31 December 2009	3,599	17,648	21,247

34 AMOUNT DUE TO A SUBSIDIARY – COMPANY

The balance represents an amount due to Morgan-Tan, a subsidiary of the Company and is unsecured, interest free and repayable on demand.

35 AMOUNT DUE TO A SHAREHOLDER – GROUP AND COMPANY

The balance represents an unpaid balance of 30% rebate to SPCL arising from a transfer of technology, which was funded by SPCL, to a third party. The balance is unsecured, interest free and repayable on demand.

36 AMOUNT DUE TO A RELATED PARTY – GROUP AND COMPANY

The balance represents an amount due to Qi Du which is wholly owned by Shanghai Zhangjiang Hi-Tech Park Co.,Ltd., a substantial shareholder of the Company. The balance is unsecured, interest free and will be offset with the consideration for transfer of a construction project (Note 44).

37 SHARE CAPITAL – GROUP AND COMPANY

	Number of shares (thousands)	**Share capital**
At 31 December 2009 and 31 December 2008	710,000	71,000

All authorised shares are issued and fully paid.

On 23 June 2002, a share option scheme (the "Scheme") was conditionally approved by the shareholders of the Company in a general meeting. Full-time employees including any executive director of the Company or its subsidiaries can be invited to take up the options to subscribe for H shares of the Company, subject to satisfaction of certain conditions. The maximum number of H shares which may be issued upon exercise of all outstanding options offered to be granted or granted and yet to be exercised under the Scheme and any other scheme of the Group must not, in aggregate, exceed 30% of the H shares of the Company in issue from time to time. The subscription price will be determined by the Board of Directors, and will be no less than the highest of (i) the closing price of the H shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a business day; (ii) the average closing prices of the H shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of a H share. The Scheme will remain valid for a period of 10 years since the date on which the Scheme becomes unconditional. A consideration of RMB1.00 is payable on acceptance of the option offer. The share options granted under the Scheme may be exercised during a period determined by the Board of Directors but no more than 10 years from the date of grant of the option.

No option shares have been granted since 23 June 2002.

(All amounts are shown in RMB thousands unless otherwise stated)

38 RESERVES

(i) The reserves of the Group attributable to shareholders of the Company for the years ended 31 December 2009 and 31 December 2008 are as follows:

	Capital accumulation reserve (Note a)	Statutory common reserve fund (Note b)	Accumulated losses (Note c)	Total
At 1 January 2008	115,014	2,829	(118,785)	(942)
Capital contribution to a subsidiary by minority interests	27,813	—	—	27,813
Unrealised loss on available-for-sales investments	(882)	—	—	(882)
Loss for the year 2008	—	—	(23,402)	(23,402)
At 31 December 2008	141,945	2,829	(142,187)	2,587
Capital contribution to a subsidiary by minority interests (Note d)	68,540	—	—	68,540
Transfer on disposal of available-for-sales investments	882	—	—	882
Loss for the year 2009	—	—	(7,320)	(7,320)
At 31 December 2009	**211,367**	**2,829**	**(149,507)**	**64,689**

(All amounts are shown in RMB thousands unless otherwise stated)

38 RESERVES *(continued)*

(ii) The reserves of the Company for the years ended 31 December 2009 and 31 December 2008 are as follows:

	Capital accumulation reserve (Note a)	**Statutory common reserve fund** (Note b)	**Accumulated losses** (Note c)	**Total**
At 1 January 2008	115,014	2,829	(44,735)	73,108
Unrealised loss on available-for-sales investments	(113)	—	—	(113)
Loss for the year 2008	—	—	(12,304)	(12,304)
At 31 December 2008	114,901	2,829	(57,039)	60,691
Transfer on disposal of available-for-sales investments	113	—	—	113
Profit for the year 2009	—	—	93	93
At 31 December 2009	**115,014**	**2,829**	**(56,946)**	**60,897**

(a) Capital accumulation reserve includes share premium arising from the issue of shares at a price in excess of their par value and changes in the fair value of available-for-sale investment. Expenses related to the issue of shares are accounted for as a deduction of the capital accumulation reserve.

(b) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders. The statutory common reserve fund shall only be used to make good previous years' losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution of shareholders' general meeting, the Company may transform its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital.

38 RESERVES *(continued)*

(ii) The reserves of the Company for the years ended 31 December 2009 and 31 December 2008 are as follows: *(continued)*

(c) In accordance with the Company's Articles of Association, the Company declares dividends based on the lower of retained earnings as reported in accordance with the PRC accounting regulations and that reported in accordance with IFRS. According to the statutory financial statements prepared in accordance with the PRC accounting regulations and the financial statements prepared in accordance with IFRS, there was no distributable reserve as of 31 December 2009 (2008: nil).

(d) Pursuant to a capital increase agreement, a third party company Taizhou Huaxin Pharmaceutical Investment Co., Ltd. invested RMB100,000,000 to subscribe for RMB20,000,000 registered capital of Taizhou Pharmaceutical, representing 23.26% of the equity interest of Taizhou Pharmaceutical as enlarged by the capital increase as of 24 December 2009. The total consideration was paid by the appraised land use rights of RMB31,184,000 and remaining amount of cash RMB68,816,000. Following this capital injection, the registered capital of Taizhou Pharmaceutical was increased from RMB66,000,000 to RMB86,000,000, and the Company's interest in Taizhou Pharmaceutical was reduced from 90.9% to 69.77%. After the completion of the registered capital increase, the Group recognised RMB68,540,000 in the capital accumulation reserve.

(All amounts are shown in RMB thousands unless otherwise stated)

39 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss before income tax to cash generated from/(used in) operations

	2009	2008
Loss before income tax	**(7,595)**	(23,130)
Adjustments for:		
Amortisation of leasehold land payments	**242**	242
Amortisation of deferred costs	**1,697**	2,316
Amortisation of technical know-how	**161**	765
(Reversal of)/provision for impairment of receivables	**(109)**	439
Write-down of inventories	**886**	842
Depreciation of property, plant and equipment	**5,142**	4,642
Realized (gains)/losses on disposal of available-for-sale investments	**(1,524)**	1,027
(Gains)/losses on disposal of property, plant and Equipment	**(3)**	141
Finance costs	**2,545**	1,483
Interest income	**(406)**	(586)
Exchange (gains)/losses on cash and cash equivalents	**—**	57
Changes in working capital:		
– trade and other receivables and amount due from a shareholder	**(17,234)**	(3,911)
– inventories	**(3,338)**	(4,361)
– trade and other payables and amount due to a shareholder	**11,041**	1,563
– deferred revenue	**18,358**	3,605
Cash generated from/(used in) operations	**9,863**	(14,866)

(All amounts are shown in RMB thousands unless otherwise stated)

40 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

(i) In 2009, the Group made sales of medical products of RMB386,000 to SPCL, a shareholder of the Company (2008: RMB2,435,000).

(ii) On 26 February 2008, the Company and Qi Du (Notes 36), entered into an agreement, pursuant to which the Company and Qi Du have agreed to jointly develop a construction project. Qi Du paid RMB6,742,000 on behalf of the Company for the project development and construction in 2009 (2008: RMB7,832,000).

(iii) The related party balances as of 31 December 2009 and 31 December 2008 are disclosed in Notes 27, 28, 34, 35 and 36.

(iv) Key management compensation

	2009	2008
Basic salary and allowances	**2,476**	2,477
Bonus	**320**	230
Retirement benefit and social security costs	**320**	291
	3,116	2,998

(All amounts are shown in RMB thousands unless otherwise stated)

41 SEGMENTAL INFORMATION

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The directors consider the business from principal activities perspective.

	Year ended 31 December 2009			Year ended 31 December 2008		
	Research and development activities	Sales of medical products and the provision of rel§Èated ancillary services	Total	Research and development activities	Sales of medical products and the provision of related ancillary services	Total
Turnover	**2,098**	**59,807**	**61,905**	88	31,902	31,990
Segment (loss)/profit	**(10,836)**	**12,174**	**1,338**	(8,329)	(3,288)	(11,617)
Unallocated income			**2,218**			634
Unallocated costs			**(11,151)**			(12,147)
Loss before income tax			**(7,595)**			(23,130)
Income tax expense			**(879)**			(1,069)
Loss for the year			**(8,474)**			(24,199)

Note: Unallocated income and unallocated costs mainly represent other income received and general and administrative expenses incurred by the Group during the years that are not directly attributable to the principal activities.

There are no sales or other transactions between the operating segments.

(All amounts are shown in RMB thousands unless otherwise stated)

41 SEGMENTAL INFORMATION *(continued)*

	Research and development activities	Sales of medical products and the provision of related ancillary services	Unallocated activities	Total
31 December 2009				
Segment assets	21,326	158,640	118,865	298,831
Segment liabilities	(73,709)	(35,875)	(20,879)	(130,463)
Net	(52,383)	122,765	97,986	168,368
Other segment items				
Capital expenditure	131	53,789	7,688	61,608
Depreciation	3,086	1,091	965	5,142
Amortisation	143	1,756	258	2,157
Reversal of impairment of receivables	—	(109)	—	(109)
Write-down of inventories	—	886	—	886
Other non-cash incomes	—	—	(3)	(3)
31 December 2008				
Segment assets	26,282	52,079	80,091	158,452
Segment liabilities	(59,863)	(4,440)	(18,266)	(82,569)
Net	(33,581)	47,639	61,825	75,883
Other segment items				
Capital expenditure	5,626	191	8,369	14,186
Depreciation	3,318	1,147	941	5,406
Amortisation	685	2,379	259	3,323
Provision for impairment of receivables	—	439	—	439
Write-down of inventories	—	842	—	842
Other non-cash expenses	5	120	16	141

Note: Unallocated activities mainly represent the holding of cash and bank deposits and available-for-sale investments and the development of a construction project by the Group during the years that cannot be allocated to the principal activities specifically.

(All amounts are shown in RMB thousands unless otherwise stated)

42 COMMITMENTS

(i) Operating lease commitments

As of 31 December 2009, the Group had future aggregate minimum lease payments due under non-cancellable operating leases in respect of buildings as follows:

	2009	2008
Within one year	**263**	396
In the second to fifth years inclusive	**—**	263
	263	659

(ii) Capital commitments

Capital expenditure contracted for at 31 December 2009 but not yet incurred is as follows:

	2009	2008
Property, plant and equipment	**14,070**	—

43 FINANCIAL RISK MANAGEMENT

(i) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) **Market risk**

(1) Foreign exchange risk

The Group operates mainly in domestic market. The remaining cash proceeds from the issue of H shares are kept in HKD (Notes 29). The Group has not hedged its foreign exchange rate risk since the exposure is not significant.

As of 31 December 2009, since most HKD proceeds have been changed to RMB, the Group is considered not to expose to any significant foreign exchange risks.

(2) Cash flow an-d fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets and liabilities, except for cash placed with banks and other financial institutions (Note 29), bank borrowings (Note 30) and loans from government authorities (Note 31).

The Group's interest rate risk arises from long term bank borrowings and loans from government authorities. Long term bank borrowings and loans from government authorities issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash placed with banks and other financial institutions. Long term bank borrowings and loans from government authorities issued at fixed rates expose the group to fair value interest rate risk. The interest rates and terms of repayment of the Group's borrowings and loans from government authorities are disclosed in Notes 30 and 31.

43 FINANCIAL RISK MANAGEMENT *(continued)*

(i) Financial risk factors *(continued)*

(a) **Market risk** *(continued)*

(2) Cash flow an-d fair value interest rate risk (continued)

Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly.

As at 31 December 2009, if interest rates on borrowings and loans from government authorities had been 10% higher/lower with all other variables held constant, loss for the year would have been RMB235,000 (2008: 10%, RMB148,000) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) **Credit risk**

The carrying amount of cash and bank, trade and other receivables, deposits and prepayments represent the Group's maximum exposure to credit risk in relation to financial assets.

Cash is mostly placed with state-controlled banks which are considered with low credit risk.

The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables.

(All amounts are shown in RMB thousands unless otherwise stated)

43 FINANCIAL RISK MANAGEMENT *(continued)*

(i) Financial risk factors *(continued)*

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents, the ability to apply for credit facilities if necessary. The Group finances its working capital requirements through a combination of funds generated from operations, government grants and bank borrowings.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Group				
At 31 December 2009				
Bank borrowings	20,147	7,281	6,922	—
Loans from government authorities	2,841	32,191	—	—
Trade and other payables/ Amount due to a shareholder	25,418	—	—	—
At 31 December 2008				
Bank borrowings	20,000	—	—	—
Loans from government authorities	2,841	1,191	32,191	—
Trade and other payables/ Amount due to a shareholder	14,624	—	—	—

(All amounts are shown in RMB thousands unless otherwise stated)

43 FINANCIAL RISK MANAGEMENT *(continued)*

(i) Financial risk factors *(continued)*

(c) **Liquidity risk** *(continued)*

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Company				
At 31 December 2009				
Bank borrowings	20,147	7,281	6,922	—
Loans from government authorities	2,841	22,191		—
Trade and other payables/ Amount due to a shareholder/ Amount due to a subsidiary	24,793	—	—	—
At 31 December 2008				
Bank borrowings	20,000	—	—	—
Loans from government authorities	2,841	1,191	22,191	—
Trade and other payables/ Amount due to a shareholder/ Amount due to a subsidiary	10,512	—	—	—

(ii) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank borrowings and loans from government authorities) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt.

(All amounts are shown in RMB thousands unless otherwise stated)

43 FINANCIAL RISK MANAGEMENT *(continued)*

(ii) Capital risk management *(continued)*

During 2009 and 2008, the Group's strategy is to maintain a gearing ratio within 50%. The gearing ratios at 31 December 2009 and 2008 were as follows:

	2009	2008
Total borrowings (Note 30 and 31)	**64,650**	52,650
Less: Cash and cash equivalents (Note 29)	**(86,898)**	(49,351)
Net debt	**(22,248)**	3,299
Total equity	**168,368**	75,883
Total capital	**146,120**	79,182
Gearing ratio	**-15%**	4%

The increase in the gearing ratio during 2009 resulted primarily from the capital injection from minority interests of Taizhou Pharmaceutical (Note 38(d)).

(iii) Fair value estimation

Available-for-sales investments are at their fair values based on the quoted price.

The carrying amounts of the Group's cash and bank balances, trade receivables, amount due from a shareholder, other receivables, amount due to a shareholder, amount due to a related party, trade payables and other payables and accruals approximate their fair values because of the short maturity of these instruments. Fair value of the borrowings and loans from government authorities are disclosed in Note 30 and Note 31, respectively.

44 SEBSEQUENT EVENT

On 15 January 2010, the Company entered into a share transfer agreement with its shareholder Shanghai Zhangjiang (Group) Co., Ltd. ("SZCL") to acquire all SZCL's 31.25% interests in the Company's subsidiary Morgan-Tan. The consideration is RMB848,000. After the acquisition, Morgan-Tan will become a wholly owned subsidiary of the Company.

On 17 March 2010, the Company signed a construction transfer contract with Qi Du. Pursuant to the contract, the Company transfers a construction project to Qi Du with the consideration of RMB26,981,000. The consideration will be partially offset by the Company's outstanding payables to Qi Du. The Company estimates the gain arising from the transfer will be approximately RMB5,776,000.

45 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 23 March 2010.