复旦张江

FUDAN-ZHANGJIANG

上海復旦張江生物醫藥股份有限公司

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

2010 ANNUAL REPORT

ANNUAL REPORT

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

(Stock Code: 8231)

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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.

Contents

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

Xue Yan, *(HKICPA/ACCA/CICPA)*

COMPLIANCE OFFICER

Zhao Da Jun

AUTHORISED REPRESENTATIVES

Zhao Da Jun
Xue Yan, *(HKICPA/ACCA/CICPA)*

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

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

Computershare Hong Kong Investor Services Limited
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REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

15/F The bank of East Asia Building
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AUTHORISED REPRESENTATIVE TO ACCEPT SERVICE OF PROCESS AND NOTICES

ONC Lawyers
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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	
	2010	2009
	RMB'000	RMB'000
Turnover	**92,390**	61,905
Operating profit/(loss)	**6,932**	(5,050)
Finance costs	**(2,946)**	(2,545)
Income/(loss) before income tax	**3,986**	(7,595)
Income tax expense	**(2,801)**	(879)
Income/(loss) for the year	**1,185**	(8,474)
Income/(loss) attributable to shareholders of the Company	**3,681**	(7,320)
Non-controlling interests	**(2,496)**	(1,154)
Total comprehensive income/(loss) for the year	**1,185**	(7,515)
Total comprehensive income/(loss) attributable to shareholders of the Company	**3,681**	(6,438)
Non-controlling interests	**(2,496)**	(1,077)
Basic and diluted income/(loss) per share for income/(loss) attributable to the shareholders of the Company (RMB)	**0.0052**	(0.0103)

ASSETS AND LIABILITIES

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Total assets	**304,154**	298,831
Total liabilities	**135,449**	130,463
	168,705	168,368
Capital and reserves attributable to shareholders of the Company	**139,243**	135,689
Non-controlling interests	**29,462**	32,679
	168,705	168,368

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 2010 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.

In the area of R&D, 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 is under progress.

Pre-clinical study for ALA(鹽酸氨酮戊酸), a photodynamic new drug for the treatment of cervical diseases infected by HPV has been completed, and application for clinical study is about to be submitted.

In Year 2010,the Group continued to perform some 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, 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 has been taking the R&D of innovative drugs as its fundamental. By the end of year 2010, 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 lymphotoxin α-derivatives (rhLT)	Tumor	Clinical trial phase II
	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	Application for clinical study is about to be submitted

Technical platform	Project name	Indications	Progress
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
	Eyan(易妍®, 鹽酸氨酮戊酸)	Acne	Launched for sale as one kind of cosmetic products
	ALA(鹽酸氨酮戊酸)	cervical diseases infected by HPV	Application for clinical study is about to be submitted
	Hemoporfin(海姆泊芬)	Port wine stain	Clinical trial phase III completed and application for the New Drug Certificate is under progress
	Deuteroporphyrin(多替泊芬)	Tumors	Approved to enter into clinical study
Liposome drugs	Libod®(里葆多® Doxorubicin liposome ,鹽酸多柔比星脂質體)	Tumors	Launched for sale
	Vincristine Liposome (長春新鹼脂質體)	Tumors	Approved to enter into clinical study
Others	Beixi (Down's Syndrome Antenatal Screening Diagnostic Reagent, 唐氏綜合征產前篩查試劑)	Down's Syndrome	Launched for sale, accredited as Shanghai Hi-Tech Transfer Project and National Torch Plan Project
	Nifeviroc(尼非韋羅)	AIDS	Clinical trial phase II

During February 2011, the Company has entered into a strategic cooperation agreement with Shanghai Pharmaceutical for the cooperation on innovative pharmaceutical research and development. Both parties will jointly share the risks of, and cooperate on, the research, development and commercialization of the relevant potential pharmaceuticals owned by the Company and its subsidiaries which are currently at various research stages. Refer to the Announcement of the Company dated 23 February 2011 for more details. The cooperation will make significant progress on the pharmaceutical research and development so that the commercialization can be realized as soon as possible.

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 1 invention patents, and granted 1 invention patents. In addition, one PCT has been applied in several countries. By the end of year 2010, the Group applied for 57 invention patents in aggregate, and obtained 22 invention patents.

Commercialization

During the period under review, the Group made satisfactory results on commercialization. Revenue from product sales increased by 53% compared with 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 2010 is about doubled over last year. It's expected that there will be more significant increase in the future.

Eyan (易研®) for the treatment of acne, launched for sale from September 2010. It's expected that its sales will increase gradually.

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 RMB 20,000,000 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. In year 2010, bids for admission have been completed in several provinces. The bigger contribution to the sales revenue for the Group is expected in future. In order to enhance the marketing capability and increase the sales of Libod®, the Group signed "the Sole Agency Agreement "with China NT Pharma Group Company Limited in February 2011, which replaced the exclusive distribution agreement with Nanjing Medical.

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:

Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou Pharmaceutical") has obtained a financial aid of RMB 12 million from "Jiangsu Province Special Aid for the Transfer of R&D Results of Science and Technology", of which, RMB2 million is a non-repayable grant, and the other RMB10 million is a low-interest loan, for a term of 3 years.

Grants of RMB 5,000,000 in total have 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 and the Science and Technology Committee of Shanghai Municipality.

Libod® (里葆多®), has been certified as Shanghai Hi-tech Result Transfer Project.

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

In Year 2010, the Group continued to perform some Pre-clinical study of rhTNFR(m):Fc (High bio-activity recombinant human TNF receptor 2-Fc fusion protein mutant高親和力組人腫瘤死因子受體突變體-Fc融合蛋白) 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. 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 and application for the New Drug Certificate is under progress. 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(長春新鹼脂質體)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 application for the New Drug Certificate is under progress.

Tumor *treatment* drugs

In respect of commercialization of drugs for the treatment of tumors, Libod®, (里葆多®), was launched to market in August 2010. 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 in the near future.

Subsequent drugs include Vincristine Liposome (長春新鹼脂質體) 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, 里葆多®, 鹽酸多柔比星脂質體)	Tumors	Launched
Eyan (易妍®鹽酸氨酮戊酸, a kind of cosmetic product)	Acne	Launched
Hemoporfin (海姆泊芬)	Port wine stain	2013
Vincristine Liposome (長春新鹼脂質體)	Tumors	2015
lymphotoxin α-derivatives (淋巴毒素α-衍生物)	Tumors	2016

* 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.

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, Eyan and Libod. The sales revenue for the year 2010 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
24 March, 2011

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 2010 amounted to approximately RMB92,390,000, comparing to RMB61,905,000 for the year 2009, representing an increase of 49%.

During the year 2010, approximately RMB851,000 (or 1% of the total turnover) was derived from the income of technology transfer, and the rest of approximately RMB91,539,000 (or 99% of the total turnover) came from the sale of medical products and income from exclusive distribution rights. In contrast, 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 and income from exclusive distribution rights for the year 2009.

REVENUE FROM TECHNOLOGY TRANSFER

Income recognized from technology transfer for the year 2010 was approximately RMB 851,000. Of which, RMB800,000 is the last receivable for a technology which was transferred to a pharmaceutical company in Shandong Province in 2003 from one subsidiary of the Gorup. 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 2010 was RMB88,009,000, increased by 53% from that of last year which was RMB57,455,000. Sales of the new products, ALA and Libod, which the Group had launched to the market, have contributed significant revenue to the Group.

INCOME FROM EXCLUSIVE DISTRIBUTION RIGHTS

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 RMB3,530,000 is recognized as revenue in 2010. It was recognized of RMB2,352,000 for the year 2009.

COST OF SALES

For the year 2010, cost of sales of the Group was RMB18,700,000, while the corresponding figure for 2009 was RMB16,185,000. The ratio of cost of sales to revenue from sale of products dropped to 21% from the level of 28% for last year. The deduction of costs mainly benefits from the strict cost control that the Group executed.

OPERATING LOSS

For the year 2010, operating income of the Group was RMB6,932,000, comparing to the operating loss RMB5,050,000 for the year 2009.

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

- R&D costs for the year 2010 was RMB23,819,000, compared with RMB22,108,000 for the year 2009, representing an increase of 8%.
- Distribution and marketing costs for the year 2010 was RMB52,646,000, compared with RMB30,483,000 for the year 2009, representing an increase of 73%. The ratio of distribution and marketing costs to revenue from sale of products increased to 60% from the level of 53% for last year. The increase mainly due that our products are now in the introduction period.
- Administration expenses for the year 2010 was RMB11,124,000, compared with RMB11,848,000 for the year 2009, representing a decrease of 6%.
- Other operating expenses for the year 2010 was RMB648,000, compared with RMB268,000 for year 2009, representing a increase of 142%.
- Other income for the year 2010 was RMB21,479,000, compared with RMB13,937,000 for the year 2009, representing an increase of 54%, mainly because the Group has recognized more income from government grants on R&D projects and during March 2010, the Company transferred the construction-in-progress project to a wholly-owned subsidiary of Shanghai Zhangjiang Hi-Tech Par Co., The first transfer as stipulated by the contract has been completed and the transfer income was about RMB4,662,000.

PROFIT/LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

A profit attributable to shareholders of the Company of RMB3,681,000 was recorded in the consolidated financial statements for the year 2010, compared with a loss of RMB7,320,000 for the year 2009.

For the year 2010, the profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB11,658,000 (2009: profit of RMB93,000).

SIGNIFICANT INVESTMENTS

For the year 2010, the Group did not have any significant investment.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 15 January 2010, the Company entered into a share transfer agreement with its shareholder Shanghai Zhangjiang (Group) Co., Ltd. To acquire all its 31.25% interests in the Company's subsidiary Morgon Tan International Center for Life Science ("Morgan Tan") .The consideration is RMB 848,000. After the acquisition, Morgan Tan became a wholly owned subsidiary of the Company.

CONTINGENT LIABILITIES

As at 31 December 2010, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

On 1 March 2006 and 6 July 2007, the Group put its leasehold land, plant and machinery in pledge to obtain a loan granted by "Technology and Education Promoting Shanghai" project. The mortgaging period depends on the time to redeem the loans.

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 1 March 2006 and 6 July 2007, respectively. Both of the two loans are due for repayment on 31 December 2011. According to the loan contract, certain interest has to be paid if the loan is repaid between 1 January 2011 and 31 December 2011.

Aided by "Jiangsu Technology Results Transfer Project", a subsidiary of the Group, Taizhou Pharmaceutical, took two loans of RMB20,000,000 totally from government authority on 28 February 2009 and 10 December 2010 which are due for repayment on 27 May 2011 and 10 December 2013, respectively. The loans are unsecured.

On 23 October 2009 and 13 September 2010, the Group took two bank loans of RMB20,000,000 and RMB17,000,000, respectively. The former is to be repaid within three years on an equal amount basis, with the due dates being 22 October 2010, 2011 and 2012, respectively. The first repayment has been paid on 22 October 2010. Redemption date for the later is 12 September 2011.

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.

As at 31 December 2010, the plant in Taizhou is under construction.

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 2010, the Group had outstanding loans of RMB 72,980,000, of which RMB21,650,000 is unsecured, and RMB 51,330,000 is secured bank loans or guaranteed by a third party company.

As at 31 December 2010, the Group had cash and cash equivalents of approximately RMB90,305,000.

The Group's gearing ratio as at 31 December 2010 was 0.97 (31 December 2009: 0.96) which is calculated based on the Group's total liabilities of RMB135,449,000 (31 December 2009: RMB130,463,000) and capital and reserves attributable to shareholders of the Company of RMB139,243,000 (31 December 2009: RMB135,689,000).

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 2010, the Group had a total of 255 employees, as compared to 212 employees as at 31 December 2009. Staff costs including directors' remuneration for the year 2010 were RMB31,623,000, compared with RMB25,146,000 for the year 2009. 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".

The Board is pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

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

The Group's turnover for the year 2010 was generated from technology transfer, sale of medical products with the provision of related ancillary services and the amortization of the exclusive distribution rights.

An analysis of the Group's performance for the year ended 31 December 2010 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	25.09%	
Total of the five largest customers	61.68%	
Largest supplier		24.17%
Total of the five largest suppliers		54.06%

Shanghai Pharmaceutical Holding Co., Ltd., 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.

RESULTS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income and related explanatory notes to the consolidated financial statements.

DIVIDENDS

At the meeting on 24 March 2011, the Board did not propose any dividends for the year ended 31 December 2010.

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 2010, 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.

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:

Zhu Zu Shun
Bao Qi
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 2010, 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 in the class of share capital	Percentage in 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 2010, 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 H Shares	139,578,560 (L) 70,564,000 (L)	Interest of controlled corporation	Corporate	27.26% 35.64%	29.60%
Shanghai Pharmaceutical Holding Co., Ltd.	Domestic Shares H Shares	139,578,560 (L) 70,564,000 (L)	Beneficial Owner	Corporate	27.26% 35.64%	29.60%
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%
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)	Interest of controlled corporation	Corporate	5.98%	4.31%
Shanghai Fudan Asset Operating Limited (上海復旦資產經營有限公司)	Domestic Shares	30,636,286 (L)	Beneficial Owner	Corporate	5.98%	4.31%

CONNECTED TRANSACTIONS

For the year ended 31 December 2010, the connected transactions are mainly included as follow:

During year 2010, the product sales revenue to Shanghai Pharmaceutical Distribution Co., Ltd.("Shanghai Pharmaceutical Distribution"), the wholly-owned subsidiary of a major shareholder, Shanghai Pharmaceutical Holding Co., Ltd ("Shanghai Pharmaceutical"), was RMB6,417,000, which under the proposed annual cap approved in General Meeting. In February 2011, the Group entered into "the Sole Agency Agreement "with China NT Pharma Group Company Limited and would not sell Libod® to Shanghai Pharmaceutical Distribution directly, which might lead to significant difference in the next two years between the connected transaction revenue with Shanghai Pharmaceutical Distribution and the proposed annual cap approved in General Meeting.

31.25% of the shares of 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 2009. The transaction was approved on the extraordinary general meeting (EGM) held on 23 May 2009. The second transfer is in the process as per Agreement, and would be completed when appropriate.

During February 2011, the Company has entered into a strategic cooperation agreement with Shanghai Pharmaceutical for the cooperation on innovative pharmaceutical research and development. Both parties will jointly share the risks of, and cooperate on, the research, development and commercialization of the relevant potential pharmaceuticals owned by the Company and its subsidiaries which are currently at various research stages. This is a connected and discloseable transaction. The Company made announcements on 23 February 2011 and 16 March 2011. The transaction will be approved on the general meeting.

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 2010.

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 2010 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
24 March 2011

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 2010 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 2010.

To the point of view of the Supervisory Committee, the resolutions passed in all board meetings for the year 2010 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 2010 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
24 March 2011

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 2010 is as follows:

1) Reviewed the financial reports for the year ended 31 December 2009 and for the half year ended 30 June 2010, and the quarterly reports ended 31 March 2010 and 30 September 2010, 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 2010;

5) Reviewed relevant connected transactions.

The Audit Committee meeting held on 24 March 2011 reviewed the Company's 2010 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 2010 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 2011.

The Audit Committee has held regular meetings, at least four times annually, and in 2010, 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
24 March, 2011

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 2010 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 2009;

3) Lay down the remuneration scheme for the Directors and Supervisors for 2010.

The Remuneration Committee has held one meeting in 2010.

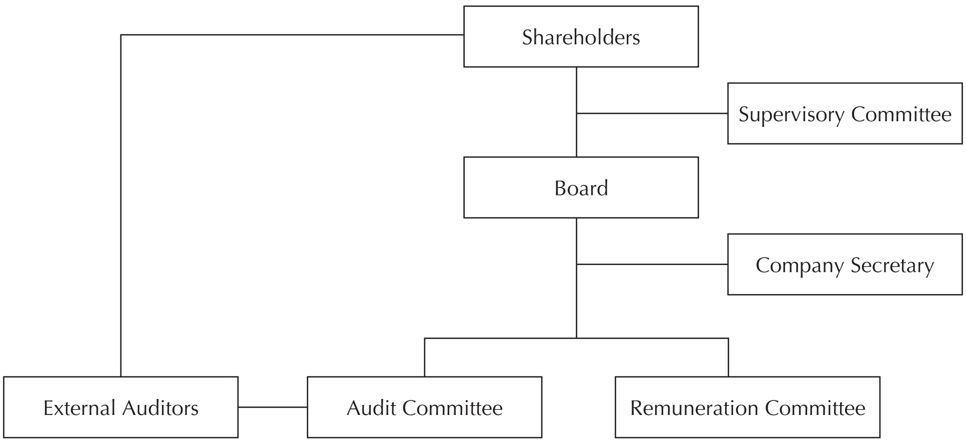
Remuneration Committee

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

Shanghai, the PRC
24 March, 2011

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 2010.

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 2009	Three years
Su Yong	20 January 2002	23 May 2009	Three years
Zhao Da Jun	20 January 2002	23 May 2009	Three years
Non-executive Directors			
Fang Jing	20 January 2002	23 May 2009	Three years
Zhou Jie	24 June 2005	23 May 2009	Three years
Guo Jun Yu	24 June 2005	23 May 2009	Three years
Hao Hong Quan	8 June 2007	23 May 2009	Three years
Zhu Ke Qin	23 May 2009	23 May 2009	Three years
Independent Non-executive Directors			
Pan Fei	20 June 2003	23 May 2009	Three years
Cheng Lin	10 July 2002	23 May 2009	Three years
Weng De Zhang	20 June 2003	23 May 2009	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 2010. 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	3/4	75%
Guo Jun Yu	3/4	75%
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. Zhu Ke Qin twic , and Mr. Wong De Zhang once.

The table below sets out the time and major agenda of Board meetings in 2010:

Time of Board meetings	**Major agenda**
23 March 2010	Reviewed annual report of 2009; Considered the re-appointment of the auditors; Considered 2010 remuneration plans for Directors and Supervisors; Considered the appointment Gan Yimin as the vice president of the Company; Determined the time for AGM.
10 May 2010	Reviewed the first quarterly results report of 2010
10 August 2010	Reviewed the interim results report of 2010; Considered the renew of sales and distribution agreement with Shanghai Pharmaceutical Distribution; Considered the amendments of Articles of Association of the Company; Considered the removal and appointment of Company Secretary.
10 November 2010	Reviewed the third quarterly results report of 2010; Considered the transferee of the shareholdings of Morgan-Tan.

Note: all above refer to regular Board meetings and one other resolution was signed on dispatched document, in which the application of taking a loan from China Bank was approved.

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 2010.

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.

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 2010.

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
Zhu Zu Shun (shareholders' representative)	16 June 2006	23 May 2009	3 years
Bao Qi (Supervisor)	12 June 2010	12 June 2010	2 years
Zhang Man Juan (staff representative)	24 June 2005	23 May 2009	3 years
Guo Yi Cheng (Independent Supervisor)	23 May 2009	23 May 2009	3 years
Xu Qing (Independent Supervisor)	23 May 2009	23 May 2009	3 years

In 2010, 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 2010.

INTERNAL CONTROL

The Company's Audit Committee and the Board have reviewed the effectiveness of the internal control system of the Group during year 2010, 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. In February 2011, the Company set up the Internal Audit and Control Department to enhance its internal control system.

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 2010. Senior management and/or external auditors were invited to attend each meeting. In 2010, 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 2010 quarterly, half-year and the audited 2009 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 2010:

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. Weng De Zhang once.

Connected transactions

The Audit Committee has reviewed the connected transactions. For the year ended 31 December 2010, 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 2010. 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 2010**	Audit fees in 2009
PricewaterhouseCoopers	**RMB750,000**	RMB720,000
PricewaterhouseCoopers Zhong Tian CPAs Limited Company	**RMB405,000**	RMB284,000

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

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 2010, 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%

Pursuant to the principles listed above, recommended by the Remuneration Committee and approved by the Board and General Meeting, the remuneration of the Directors and senior executives of the Group have been modified during Year 2010.Emoluments of Directors and senior managements for 2010 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.

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 2010, 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 and kept communication with related parties. 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 2010, the Company has held on AGM, details of which are as follows:

Time	10:00 a.m., 11 June 2010
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; General mandate for the issue of 20% of the Shares.

In 2010, the Company has held on EGM, details of which are as follows:

Time	10:00 a.m., 29 October 2010
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Shareholders extraordinary general meeting
Way of voting	Poll
Major issues	Approved the continuing connected transaction - renew of sales and distribution agreement with Shanghai Pharmaceutical Distribution; Approved the amendments of Articles of Association of the Company.

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

Items	**Proposed time**
Announcement of 2011 results	24 March 2011
Announcement of 2011 first quarterly results	Around 10 May 2011
AGM	Around June 2010
Announcement of 2011 interim results	Around 10 August 2011
Announcement of 2011 third quarterly results	Around 10 November 2011

By order of the Board
Xue Yan
Secretary

Shanghai, the PRC

24 March, 2011

DIRECTORS

EXECUTIVE DIRECTORS

Wang Hai Bo, aged 50, 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 47, 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 40, 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 41, 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 43, 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.

Guo Jun Yu, aged 37, graduated from Shanghai Medical University with a bachelor's degree. He has a professional pharmacist qualification. He is currently the deputy manager of Shanghai Pharmaceutical Distribution Co., Ltd. He has been working for nearly 10 years in Shanghai pharmaceutical. 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 54, 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 59, is a fellow researcher and senior engineer. He is currently the director of Enterprise Management Center of Shanghai Education Committee. He used to be 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 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 55, 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 48, 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.

Weng De Zhang, aged 48, 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 43, 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, the general manager of the Audit Division of China General Technology (Group) Holding, Ltd. and the general manager of China General Technology (Group) Pharmaceutics Holding, Ltd. He is currently the deputy general manager of China International Advertising Corp. He was appointed as a supervisor representing shareholders in June 2006.

Bao Qi, aged 35, 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 47, 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 65, 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.

Xu Qing, aged 47, 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 46, 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 43, is a deputy general manager of the Company. He graduated from 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 48, 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.

Gan Yi Min, aged 49, is a deputy general manager of the Company. He obtained a bachelor's degree from Industrial Automation with Xian Technology University and a master's degree of Pharma Engineering from Beijing Chemical Engineering University. In addition, he graduated from Jiaotong University of Xi'an and Antwerp University (Belgium) with MBA and EMBA degree respectively. He used to be the general manager of Haini Pharmaceutical Ltd (Shanghai). He joined the Company in February 2010.

COMPANY SECRETARY

Xue Yan, aged 30, is the Company Secretary and an authorized representative of the company. She holds a bachelor degree in International Accounting from Shanghai University of Finance & Economics. She is a member of Hong Kong Institute of Certified Public Accountants (HKICPA), the Association of Chartered Certified Accountants (ACCA) and Chinese Institute of Certified Public Accountants (CICPA). She has extensive professional experience in accounting as well as experience in corporate compliance. She joined the Company in June 2010.

PRICEWATERHOUSECOOPERS

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 52 to 114, which comprise the consolidated and Company balance sheets as of 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit 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, 24 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December 2010	2009
Turnover	4	**92,390**	61,905
Cost of sales		**(18,700)**	(16,185)
Gross profit		**73,690**	45,720
Other income	5	**21,479**	13,937
Research and development costs		**(23,819)**	(22,108)
Distribution and marketing costs		**(52,646)**	(30,483)
Administrative expenses		**(11,124)**	(11,848)
Other operating expenses		**(648)**	(268)
Operating profit/(loss)	6	**6,932**	(5,050)
Finance costs	7	**(2,946)**	(2,545)
Profit/(Loss) before income tax		**3,986**	(7,595)
Income tax expense	10	**(2,801)**	(879)
Profit/(Loss) for the year		**1,185**	(8,474)
Other comprehensive income			
Available-for-sale investments	22	**—**	959
Total comprehensive profit/(loss) for the year		**1,185**	(7,515)
Profit/(Loss) attributable to:			
Shareholders of the Company		**3,681**	(7,320)
Non-controlling interests		**(2,496)**	(1,154)
		1,185	(8,474)
Total comprehensive income/(loss) attributable to:			
Shareholders of the Company		**3,681**	(6,438)
Non-controlling interests		**(2,496)**	(1,077)
		1,185	(7,515)
Basic and diluted earnings/(loss) per share for profit/(loss) attributable to the shareholders of the Company (RMB)	14	**0.0052**	(0.0103)

The notes on pages 58 to 114 are an integral part of these financial statements.

As of 31 December 2010

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

	Notes	Group As of 31 December 2010	Group As of 31 December 2009	Company As of 31 December 2010	Company As of 31 December 2009
Non-current assets					
Leasehold land payments	15	**35,710**	42,799	**4,285**	10,690
Property, plant and equipment	16	**83,591**	74,334	**44,448**	46,957
Prepayment for construction	17	**—**	27,652	**—**	—
Technical know-how	18	**95**	110	**63**	74
Deferred costs	19	**4,131**	5,565	**4,131**	5,565
Investments in subsidiaries	20	**—**	—	**72,213**	71,365
Investment in an associate	21	**—**	—	**—**	—
Available-for-sale investments	22	**—**	129	**—**	42
Deferred income tax assets	23	**1,055**	3,856	**1,055**	3,856
		124,582	154,445	**126,195**	138,549
Current assets					
Inventories	24	**15,735**	14,625	**14,877**	14,625
Trade receivables	25	**43,486**	26,929	**43,005**	26,929
Other receivables, deposits and prepayments	26	**25,696**	1,028	**6,765**	806
Available-for-sale investments		**143**	—	**65**	—
Assets held-for-sale	27	**—**	14,906	**—**	14,906
Amount due from a shareholder	28	**4,207**	—	**4,207**	—
Amounts due from subsidiaries	29	**—**	—	**16,633**	6,802
Cash and cash equivalents	30	**90,305**	86,898	**39,358**	44,544
		179,572	144,386	**124,910**	108,612
Total assets		**304,154**	298,831	**251,105**	247,161

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

As of 31 December 2010

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

		Group		Company	
		As of 31 December		As of 31 December	
	Notes	**2010**	2009	**2010**	2009
Non-current liabilities					
Borrowings	31	**6,660**	13,330	**6,660**	13,330
Loans from government authorities	32	**10,000**	31,000	**—**	21,000
Deferred revenue	34	**—**	14,118	**—**	14,118
		16,660	58,448	**6,660**	48,448
Current liabilities					
Trade payables	33	**1,145**	1,342	**795**	1,141
Other payables and accruals		**32,498**	22,576	**32,120**	22,152
Deferred revenue	34	**27,326**	11,703	**20,155**	7,129
Loans from government authorities	32	**32,650**	1,650	**22,650**	1,650
Amount due to a shareholder	35	**1,500**	1,500	**1,500**	1,500
Amount due to a related party	36	**—**	14,574	**—**	14,574
Borrowings	31	**23,670**	18,670	**23,670**	18,670
		118,789	72,015	**100,890**	66,816
Total liabilities		**135,449**	130,463	**107,550**	115,264

As of 31 December 2010
(All amounts are shown in RMB thousands unless otherwise stated)

		Group		Company	
		As of 31 December		As of 31 December	
	Notes	**2010**	2009	**2010**	2009
Capital and reserves attributable to shareholders of the Company					
Share capital	37	**71,000**	71,000	**71,000**	71,000
Reserves	38	**68,243**	64,689	**72,555**	60,897
		139,243	135,689	**143,555**	131,897
Non-controlling interests		**29,462**	32,679	**—**	—
Total equity		**168,705**	168,368	**143,555**	131,897
Total equity and liabilities		**304,154**	298,831	**251,105**	247,161
Net current assets		**60,783**	72,371	**24,020**	41,796
Total assets less current liabilities		**185,365**	226,816	**150,215**	180,345

The notes on pages 58 to 114 are an integral part of these financial statements.

Wang Hai Bo
Director

Zhao Da Jun
Director

24 March 2011

Consolidated Cash Flow Statement

For the year ended 31 December 2010
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December 2010	2009
Operating activities			
Cash (used in)/generated from operations	39	**(4,709)**	9,863
Interest paid		**(2,946)**	(2,545)
Interest received		**547**	406
Net cash (used in)/generated from operating activities		**(7,108)**	7,724
Investing activities			
Purchase of property, plant and equipment		**(9,406)**	(54,809)
Payment of leasehold land		**—**	(982)
Purchase of technical know-how		**—**	(25)
Purchase of available-for-sales investments		**(7,020)**	(6,568)
Purchase of shares from non-controlling interests		**(848)**	—
Proceeds from disposal of property, plant and equipment and land		**11,312**	27
Proceeds from disposal of available-for-sale investments		**8,147**	11,364
Net cash generated from/(used in) investing activities		**2,185**	(50,993)
Financing activities			
Capital contribution to a subsidiary by non-controlling interests		**—**	68,816
Loans from government authorities		**10,000**	—
Proceeds from borrowings		**17,000**	32,000
Repayments of borrowings		**(18,670)**	(20,000)
Net cash generated from financing activities		**8,330**	80,816
Net increase in cash and cash equivalents		**3,407**	37,547
Cash and cash equivalents at beginning of the year		**86,898**	49,351
Cash and cash equivalents at end of the year	30	**90,305**	86,898

The notes on pages 58 to 114 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010
(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)	Non-controlling interests	Total equity
At 1 January 2009	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 non-controlling 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
Comprehensive profit / (loss)						
Profit / (Loss) for the year 2010	—	—	—	3,681	(2,496)	(1,185)
Transactions with owners						
Acquisition of non-controlling interests	—	(127)	—	—	(721)	(848)
Total transactions with owners	—	(127)	—	—	(721)	(848)
At 31 December 2010	71,000	211,240	2,829	(145,826)	29,462	168,705

The notes on pages 58 to 114 are an integral part of these financial statements.

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 2010, the Company had direct interests of 100%, 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 2010.

IAS 27 (Revised)	Consolidated and separate financial statements
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 (Amendment)	Group cash-settled share-based payment transaction
IFRS 3 (Revised)	Business combinations
IFRIC 17	Distribution of non-cash assets to owners

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 32 (Amendment)	Classification of rights issue
Amendment to IFRS 1	Limited exemption from comparative IFRS 7 disclosures for first-time adopters
IFRS 9	Financial Instruments
Amendment to IFRIC 14	Prepayments of a minimum funding requirement
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.

(c) Transaction with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For capital contribution by non-controlling interests 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Financial assets *(continued)*

(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)).

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Financial assets *(continued)*

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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.

(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 RMB42,000 higher/lower.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

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

(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 constant as well.

(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 2010 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:

	2010	2009
Sales of medical products and the provision of related ancillary services	**88,009**	57,455
Exclusive rights	**3,530**	2,352
Technology transfer revenue	**851**	2,098
	92,390	61,905

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 RMB3,530,000 is recognised as revenue in 2010 (2009: RMB2,352,000). In February 2011, the Company terminated the aforementioned contract (Note 44), the remaining balance of RMB 14,118,000 will be repaid to the customer (Note 34).

On 15 September 2003 and 10 March 2004, Morgan-Tan, a subsidiary of the Company, entered into technology transfer contracts with a pharmaceutical company in Shandong Province to transfer Mycophenolate Mofetil for a total consideration of RMB4,500,000, of which an amount of RMB800,000 was received and recognised as revenue in 2010 as Morgan-Tan completed respective milestones of transfer as specified in the contracts and economic benefits associated with the completion had flowed to Morgan-Tan (2009: nil).

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 RMB51,000 was received and recognised as revenue in 2010 (2009: RMB98,000).

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

4 TURNOVER *(continued)*

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, no amount has been received in 2010 (2009: RMB2,000,000) as specified in the contract. 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.

5 OTHER INCOME

	2010	2009
Amortisation of government grants (Note 34)	**14,832**	7,414
Interest income	**547**	406
Profit on disposal of available-for-sale investments	**1,139**	1,524
Profit on disposal of a construction project (Note (a))	**4,662**	—
Recognition of a non-refundable grant (Note (b))	**—**	4,306
Others	**299**	287
	21,479	13,937

(a) During the year, the Company sold a construction project to Shanghai Qi Du Sci & Tech Development Co., Ltd., ("Qi Du") which is wholly owned by Shanghai Zhangjiang Hi-Tech Park Co., Ltd., a substantial shareholder of the Company for a total consideration of RMB 28,494,000, and the corresponding cost is RMB23,832,000.(Note 6)

(b) In 2009, 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:

	2010	2009
Amortisation of leasehold land payments (Note15)	881	299
Less: amount capitalised in construction in progress	(684)	(57)
	197	242
Amortisation of deferred costs (included in 'Cost of sales') (Note19)	1,434	1,697
Amortisation of technical know-how (included in 'Research and development costs')	—	143
Amortisation of technical know-how (included in 'Administrative expenses')	15	18
	15	161
Auditors' remuneration	1,050	1,021
Reversal of for impairment of receivables	(168)	(109)
Write-down of inventories	977	886
Cost of inventories sold	17,346	15,324
Depreciation of property, plant and equipment (Note16)	5,394	5,142
Losses/(Gains) on disposal of property, plant and equipment	251	(3)
Operating lease rentals in respect of land and buildings	122	396
Research and development costs, excluding employee benefit expenses	15,261	14,353
Employee benefit expenses (Note 8)	31,623	25,146
Gains on disposal of available-for-sale investments	(1,139)	(1,524)
Marketing and sales promotion	27,167	16,431

7 FINANCE COSTS

	2010	2009
Interest expense on bank borrowings wholly repayable within five years	2,946	2,545

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

8 EMPLOYEE BENEFIT EXPENSES

	2010	2009
Wages and salaries	**25,001**	18,200
Housing subsidies	**1,637**	2,918
Social security costs	**1,743**	1,410
Retirement benefit costs (Note 9)	**3,242**	2,618
Employee benefit expenses including directors' and supervisors' emoluments	**31,623**	25,146
The number of employees at the end of the year	**255**	212

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 RMB3,242,000 and RMB2,618,000 for the years ended 31 December 2010 and 31 December 2009, respectively.

10 INCOME TAX EXPENSE

	2010	2009
Current income tax	**—**	—
Deferred tax charge (Note 23)	**2,801**	879
	2,801	879

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.

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

10 INCOME TAX EXPENSE *(continued)*

The tax on the Group's profit/(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:

	2010	2009
Profit/(Loss) before income tax	**3,986**	(7,595)
Tax calculated at a tax rate of 15%	**598**	(1,139)
Effect of unrecognised tax losses of the Group	**1,576**	1,596
Effect of tax exemption	**344**	1,070
Utilisation of previously unrecognised tax losses	**(3,414)**	(2,820)
Expenses not deductible for tax purpose	**3,697**	2,172
Tax charge	**2,801**	879

The tax credit relating to components of other comprehensive income is as follows:

	2010			2009		
	Before tax	**Tax charge**	**After tax**	Before tax	Tax charge	After tax
Fair value losses transfer from equity: – Available-for-sale investment	**—**	**—**	**—**	959	—	959
Other comprehensive income	**—**	**—**	**—**	959	—	959

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

11 PROFIT 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 11,658,000 (2009:RMB 93,000).

12 DIVIDENDS

At the meeting on 24 March 2011, the Board of Directors recommended not to distribute any dividends in respect of the year ended 31 December 2010.

At the shareholders' Annual General Meeting on 11 June 2010, it was resolved not to distribute any dividends in respect of the year ended 31 December 2009.

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:

	2010	2009
Basic salaries and allowances	**1,628**	1,212
Bonus	**300**	200
Retirement benefit and social security costs	**167**	134
Fees	**130**	100
	2,225	1,646

RMB240,000 fees were paid and payable to the independent non-executive directors for the year (2009: RMB180,000).

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

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

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

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:

	2010	2009
Executive director, Wang Hai Bo	**883**	601
Executive director, Su Yong	**617**	526
Executive director, Zhao Da Jun	**595**	419
Supervisor, Guo Yi Cheng	**65**	50
Supervisor, Xu Qing	**65**	50
Independent non-executive director, Cheng Lin	**80**	60
Independent non-executive director, Pan Fei	**80**	60
Independent non-executive director, Weng De Zhang	**80**	60
	2,465	1,826

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

	2010	2009
Directors	**2**	3
Non-directors	**3**	2
	5	5

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

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

	2010	2009
Basic salaries and allowances	**1,208**	771
Bonus	**474**	60
Retirement benefit and social security costs	**189**	82
	1,871	913

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

(iv) During the years ended 31 December 2010 and 2009, 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 EARNINGS/(LOSS) PER SHARE

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

	2010	2009
Earnings/(Loss) attributable to shareholders of the Company (RMB thousands)	**3,681**	(7,320)
Weighted average number of ordinary shares in issue (thousands)	**710,000**	710,000
Basic earnings/(loss) per share (RMB)	**0.0052**	(0.0103)

There is no difference between the basic and diluted earnings/ (loss) per share for the years ended 31 December 2010 and 2009 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	
	2010	2009	**2010**	2009
Net book value at beginning of the year	**42,799**	10,932	**10,690**	10,932
Additions	**—**	32,166	**—**	—
Disposals	**(6,208)**	—	**(6,208)**	—
Amortisation	**(881)**	(299)	**(197)**	(242)
Net book value at end of the year	**35,710**	42,799	**4,285**	10,690

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 41 and 45 years.

As of 31 December 2010, bank borrowings and certain loans from government authorities were secured on leasehold land of the Company with a net book value of RMB4,285,000 (2009: RMB4,391,000) (Notes 31 and 32(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 2010 and 31 December 2009 are as follows:

	Construction -in-progress	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Total
Cost					
At 1 January 2009	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 27)	(14,906)	—	—	—	(14,906)
Disposals	—	(269)	(124)	(408)	(801)
At 31 December 2009	26,099	76,312	2,961	2,380	107,752
Additions	10,102	4,407	201	392	15,102
Disposals	(95)	(2,488)	(156)	(219)	(2,958)
At 31 December 2010	36,106	78,231	3,006	2,553	119,896
Accumulated depreciation					
At 1 January 2009	—	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
Charge for the year	—	4,699	340	355	5,394
Disposals	—	(2,166)	(130)	(211)	(2,507)
At 31 December 2010	—	33,121	2,221	963	36,305
Net book value					
At 31 December 2010	36,106	45,110	785	1,590	83,591
At 31 December 2009	26,099	45,724	950	1,561	74,334

(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 2010 and 31 December 2009 are as follows:

	Construction -in-progress	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Total
Cost					
At 1 January 2009	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 27)	(14,906)	—	—	—	(14,906)
Disposals	—	(250)	(78)	(408)	(736)
At 31 December 2009	—	71,811	2,698	2,047	76,556
Additions	95	1,883	170	389	2,536
Disposals	(95)	(39)	(153)	(219)	(506)
At 31 December 2010	—	73,654	2,715	2,217	78,586
Accumulated depreciation					
At 1 January 2009	—	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
Charge for the year	—	4,309	310	291	4,911
Disposals	—	(34)	(127)	(211)	(372)
At 31 December 2010	—	31,272	2,039	827	34,138
Net book value					
At 31 December 2010	—	42,382	676	1,390	44,448
At 31 December 2009	—	44,814	842	1,301	46,957

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

16 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(iii) As of 31 December 2010, bank borrowings and certain loans from government authorities were secured on plant and machinery of the Company with a net book value of RMB21,472,000 (2009: RMB24,130,000) (Notes 31 and 32(b)).

17 PREPAYMENT FOR CONSTRUCTION - GROUP

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

18 TECHNICAL KNOW-HOW

	Group		**Company**	
	2010	2009	**2010**	2009
Cost				
At beginning of the year	**3,822**	9,047	**3,766**	3,741
Additions	**—**	25	**—**	25
Written off	**—**	(5,250)	**—**	—
At end of the year	**3,822**	3,822	**3,766**	3,766
Accumulated amortisation				
At beginning of the year	**3,712**	8,801	**3,692**	3,537
Charge for the year	**15**	161	**11**	155
Written off	**—**	(5,250)	**—**	—
At end of the year	**3,727**	3,712	**3,703**	3,692
Net book value				
At end of the year	**95**	110	**63**	74

(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 2009	18,159	—	18,159
Capitalisation of costs	—	1,000	1,000
Written off	(11,873)	—	(11,873)
At 31 December 2009 and 2010	6,286	1,000	7,286
Accumulated amortisation			
At 1 January 2009	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
Charge for the year	1,257	177	1,434
At 31 December 2010	2,861	294	3,155
Net book value			
At 31 December 2010	3,425	706	4,131
At 31 December 2009	4,682	883	5,565

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

20 INVESTMENTS IN SUBSIDIARIES - COMPANY

	2010	2009
Unlisted equity investments, at cost		
At beginning and end of the year	**75,250**	75,250
Additions(Note (a))	**848**	—
	76,098	75,250
Impairment charge		
At beginning of the year	**(3,885)**	(3,241)
Additions	**—**	(644)
At end of the year	**(3,885)**	(3,885)
Net book value		
At end of the year	**72,213**	71,365

(a) In January 2010, the Company entered into a share transfer agreement with Shanghai Zhangjiang (Group) Co., Ltd. ("SZCL") to acquire all of SZCL's 31.25% interests in the Company's subsidiary Morgan-Tan. The consideration is RMB848,000. After the acquisition, Morgan-Tan became a wholly owned subsidiary of the Company. SZCL is the parent company of Shanghai Zhangjiang Hi-Tech Park Development Corp., one of the Company's shareholders.

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

20 INVESTMENTS IN SUBSIDIARIES - COMPANY *(continued)*

As of 31 December 2010, 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	100	Research and development ("R&D") of specialised bio-pharmaceutical projects and provision of related services in the PRC
Shanghai Ba Dian Medicine Co., Ltd. (上海靶點藥物有限公司)	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. (泰州復旦張江藥業有限公司)	PRC 13 March 2007	RMB86,000,000	69.77	Research and development ("R&D") of pharmaceutical projects and medical instruments and provision of related services in the PRC

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

21 INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2010	2009	**2010**	2009
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") (上海先導藥業有限公司)	PRC 27 November 2002	RMB 30,000,000	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**
2010	**2,021**	**3,468**	**—**	**(1,136)**
2009	2,141	2,452	155	(859)

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

22 AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2010	2009	**2010**	2009
At beginning of the year	**129**	2,442	**42**	288
Additions	**—**	6,568	**—**	2,492
Fair value losses transfer from equity	**—**	959	**—**	113
Disposals	**(129)**	(9,840)	**(42)**	(2,851)
At end of the year	**—**	129	**—**	42
Listed equity investments, at fair value	**—**	129	**—**	42

23 DEFERRED INCOME TAX ASSETS - GROUP AND COMPANY

	2010	2009
Deferred tax assets:		
– Deferred tax asset to be recovered after more than one year	**821**	3,205
– Deferred tax asset to be recovered within one year	**685**	792
	1,506	3,997
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than one year	**—**	(86)
– Deferred tax liabilities to be recovered within one year	**(451)**	(55)
	(451)	(141)
Deferred tax assets (net)	**1,055**	3,856

(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:

	2010	2009
Deferred income tax assets (on net basis)		
At beginning of the year	**3,856**	4,735
Charged to income tax expense (Note 10)	**(2,801)**	(879)
At end of the year	**1,055**	3,856

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 RMB71,438,000 and RMB92,137,000 as of 31 December 2010 and 31 December 2009 respectively. The tax losses will expire within five years from the respective balance sheet date and it is expected that the Group will utilise them to offset against future taxable profits in 2011. 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.

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 2009	**(370)**
Credited to income tax expense	**229**
At 31 December 2009	**(141)**
Credited to income tax expense	**(310)**
At 31 December 2010	**(451)**

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

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

Deferred income tax assets (on gross basis)

	Provisions	Tax losses	Total
At 1 January 2009	898	4,207	5,105
Charged to income tax expense	(181)	(927)	(1,108)
At 31 December 2009	717	3,280	3,997
Credited/(Charged) to income tax expense	104	(2,595)	(2,491)
At 31 December 2010	821	685	1,506

24 INVENTORIES

	Group		Company	
	2010	2009	**2010**	2009
Raw materials	**4,885**	3,003	**4,587**	3,003
Production supplies and consumables	**306**	374	**306**	374
Work in progress	**853**	212	**854**	212
Finished goods	**3,695**	7,621	**3,134**	7,621
Medical equipment held for sale	**5,996**	3,415	**5,996**	3,415
	15,735	14,625	**14,877**	14,625

During the year, the write-down on inventories to the net realisable value was RMB977,000 (2009: RMB886,000).

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

25 TRADE RECEIVABLES - GROUP AND COMPANY

	2010	2009
Accounts receivables (Note(a))	**37,811**	26,904
Notes receivable (Note(b))	**5,675**	25
	43,486	26,929

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

	2010	2009
Current to 30 days	**27,437**	10,059
31 days to 60 days	**6,619**	7,176
61 days to 90 days	**577**	3,518
Over 90 days but less than one year	**3,330**	6,424
Over one year	**494**	547
	38,457	27,724
Less: provision for impairment	**(646)**	(820)
	37,811	26,904

Customers are generally granted credit term of 90 days.

As of 31 December 2010 and as of 31 December 2009, the accounts receivables aging over one year were fully impaired.

As of 31 December 2010, accounts receivable of RMB494,000 (2009: RMB547,000) 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:

	2010	2009
Over 90 days but less than one year	**3,330**	6,424
Over one year	**494**	547
	3,824	6,971

(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)*

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

	2010	2009
At beginning of the year	**820**	2,192
(Reversal of)/provision for impairment of receivables	**(168)**	(109)
Receivables written off during the year as uncollectible	**(6)**	(1,263)
At end of the year	**646**	820

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.

26 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2010	2009
Receivables of construction project (Note(a))	**18,574**	—
Prepayments	**4,439**	218
Others	**2,683**	810
	25,696	1,028

(a) During 2010, Taizhou Pharmaceutical has signed a contract to terminate a construction service with a third party. Pursuant to the contract, Taizhou Pharmaceutical is entitled to receive an amount of RMB18,574,000 from the third party, representing the prepayment made by Taizhou Pharmaceutical before the contract was terminated (2009: nil).

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

27 ASSETS HELD-FOR-SALE - GROUP AND COMPANY

As of 31 December 2009, the balance represented the cost of a construction project. The construction project was sold to Qi Du on 14 December 2010 (Note 5).

28 AMOUNT DUE FROM A SHAREHOLDER - GROUP AND COMPANY

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

29 AMOUNTS DUE FROM SUBSIDARIES - COMPANY

The balances represent amounts due from Morgan-Tan, Taizhou Pharmaceutical and Ba Dian, subsidiaries of the Company and are unsecured, interest free and repayable on demand.

30 CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
Cash and bank balances	**82,492**	80,043	**32,958**	38,677
Deposits in other financial institutions (Note (a))	**7,813**	6,855	**6,400**	5,867
	90,305	86,898	**39,358**	44,544
Maximum exposure to credit risk	**90,252**	86,866	**39,328**	44,544
Cash and bank balances denominated in				
– RMB	**90,303**	86,891	**39,356**	44,537
– Hong Kong Dollars ("HKD")	**2**	7	**2**	7
	90,305	86,898	**39,358**	44,544

(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% (2009: 0.36%-1.35%) per annum.

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

31 BORROWINGS - GROUP AND COMPANY

	2010	2009
Non-current		
Long-term bank borrowings, secured	**13,330**	20,000
Less: current portion	**(6,670)**	(6,670)
	6,660	13,330
Current		
Short-term bank borrowings, secured	**17,000**	12,000
Current portion of long-term bank borrowings, secured	**6,670**	6,670
	23,670	18,670

Long-term bank borrowings of RMB13,330,000 as of 31 December 2010 bear an interest rate of 5.40% annually, among which 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 are secured by the leasehold land, plant and machinery of the Company (Notes 15 and 16).

Short-term bank borrowing of RMB17,000,000 as of 31 December 2010 is due for repayment on 12 September 2011, and bears an interest rate of 5.31% annually. The borrowing is denominated in RMB and is guaranteed by a third party company. Such guarantee is secured by the pledge of new drug certificates and the contract of exclusive rights granted to a customer.

Long-term bank borrowing of RMB6,670,000 as of 31 December 2009 was repaid on 12 October 2010, which bore an interest rate of 5.40% annually. The borrowing was denominated in RMB and was secured by the leasehold land, plant and machinery of the Company (Notes 15 and 16).

Short-term bank borrowing of RMB12,000,000 as of 31 December 2009 was repaid on 16 September 2010, which bore an interest rate of 5.73% annually. The borrowing was denominated in RMB and was 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.

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

31 BORROWINGS - GROUP AND COMPANY *(continued)*

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

	Carrying amount		Fair value	
	2010	2009	**2010**	2009
Long-term bank borrowings	**13,300**	20,000	**12,766**	19,947

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 6.10% based on the market rate published by People's Bank of China as of 31 December 2010 (2009: 5.40%).

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

	2010	2009
Within one year	**13,330**	20,000

32 LOANS FROM GOVERNMENT AUTHORITIES

The loans from government authorities are repayable as follows:

	Group		Company	
	2010	2009	**2010**	2009
Current (Note (a))	**32,650**	1,650	**22,650**	1,650
Non-current (Note (b))	**10,000**	31,000	**—**	21,000
	42,650	32,650	**22,650**	22,650

32 LOANS FROM GOVERNMENT AUTHORITIES *(continued)*

(a) Loan of RMB1,650,000 represent government assistance from several PRC government authorities and are unsecured and interest free. The loans as of 31 December 2010 are repayable on demand.

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.

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. The effective interest rate in 2010 is 5.67%-5.88% (2009: 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, a subsidiary of the Company, 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.

(b) On 22 November 2010, Taizhou Pharmaceutical, a subsidiary of the Company, 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 10 December 2013. The interest rate is 0.3% annually, and not adjusted with the relevant interest rate stipulated by the People's Bank of China.

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

32 LOANS FROM GOVERNMENT AUTHORITIES *(continued)*

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

	Carrying amount		Fair value	
	2010	2009	**2010**	2009
Loans from government authorities	**41,000**	31,000	**39,184**	30,334

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

	Carrying amount		Fair value	
	2010	2009	**2010**	2009
Loans from government authorities	21,000	21,000	21,062	21,107

The fair values of current loans of RMB1,650,000 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 6.10% based on the market rate published by People's Bank of China as of 31 December 2010 (2009: 5.40%).

33 TRADE PAYABLES

Details of the aging analysis are as follows:

	Group		Company	
	2010	2009	**2010**	2009
Current to 30 days	**272**	636	**257**	636
31 days to 60 days	**223**	146	**223**	146
61 days to 90 days	**205**	62	**70**	62
Over 90 days but less than one year	**36**	165	**36**	166
Over one year	**409**	333	**209**	131
	1,145	1,342	**795**	1,141

Trade payables are unsecured and interest-free.

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

34 DEFERRED REVENUE

	Group		Company	
	2010	2009	**2010**	2009
Government grants	**13,208**	8,173	**6,037**	3,599
Exclusive rights granted to a customer	**14,118**	17,648	**14,118**	17,648
	27,326	25,821	**20,155**	21,247
Less: amount to be realised within one year	**(13,208)**	(11,703)	**(6,037)**	(7,129)
amount to be settled within one year	**(14,118)**	—	**(14,118)**	—
	—	14,118	**—**	14,118

(i) The deferred revenue of the Group for the years ended 31 December 2010 and 31 December 2009 are as follows:

	Government grants	**Exclusive rights**	**Total**
At 1 January 2009	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
Additions	19,867	—	19,867
Transfer to income	(14,832)	(3,530)	(18,362)
At 31 December 2010	13,208	14,118	27,326

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

34 DEFERRED REVENUE *(continued)*

(ii) The deferred revenue of the Company for the years ended 31 December 2010 and 31 December 2009 are as follows:

	Government grants	Exclusive rights	Total
At 1 January 2009	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
Additions	8,812	—	8,812
Transfer to income	(6,374)	(3,530)	(9,904)
At 31 December 2010	6,037	14,118	20,155

(iii) In February 2011, the Company terminated the exclusive distribution rights with a customer (Note 4 and Note 44). The remaining balance of the exclusive rights granted to this customer will be repaid to the customer.

35 AMOUNT DUE TO A SHAREHOLDER - GROUP AND COMPANY

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

36 AMOUNT DUE TO A RELATED PARTY - GROUP AND COMPANY

During the year, the amount due to Qi Du was offset against the consideration payable to the Group by Qi Du on the sale of a construction project (Note 5).

The balance as of 31 December 2009 represented 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 was unsecured, interest free and would be offset with the consideration for transfer of a construction project.

37 SHARE CAPITAL - GROUP AND COMPANY

	Number of shares (thousands)	Share capital
At 31 December 2010 and 31 December 2009	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 2010 and 31 December 2009 are as follows:

	Capital accumulation reserve (Note a)	Statutory common reserve fund (Note b)	Accumulated losses (Note c)	Total
At 1 January 2009	141,945	2,829	(142,187)	2,587
Capital contribution to a subsidiary by non-controlling 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
Acquisition of non-controlling interests (Note 20 (a))	(127)	—	—	(127)
Profit for the year 2010	—	—	3,681	3,681
At 31 December 2010	211,240	2,829	(145,826)	68,243

(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 2010 and 31 December 2009 are as follows:

	Capital accumulation reserve (Note a)	Statutory common reserve fund (Note b)	Accumulated losses (Note c)	Total
At 1 January 2009	114,901	2,829	(57,039)	60,691
Unrealised loss on available-for-sales investments	113	—	—	113
Loss for the year 2009	—	—	93	93
At 31 December 2009	115,014	2,829	(56,946)	60,897
Profit for the year 2010	—	—	11,658	11,658
At 31 December 2010	115,014	2,829	(45,288)	72,555

38 RESERVES *(continued)*

(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.

(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 2010 (2009: 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 profit/(loss) before income tax to cash generated from/(used in) operations

	2010	2009
Profit/(Loss) before income tax	**3,986**	(7,595)
Adjustments for:		
Amortisation of leasehold land payments	**881**	242
Amortisation of deferred costs	**1,434**	1,697
Amortisation of technical know-how	**15**	161
Reversal of impairment of receivables	**(174)**	(109)
Write-down of inventories	**977**	886
Depreciation of property, plant and equipment	**5,394**	5,142
Realized gains on disposal of available-for-sale investments	**(1,139)**	(1,524)
Gain on disposal of a construction project (Note 5)	**(4,662)**	—
Losses/(Gains) on disposal of property, plant and Equipment	**251**	(3)
Finance costs	**2,946**	2,545
Interest income	**(547)**	(406)
Changes in working capital:		
– trade and other receivables and amount due from a shareholder	**(23,213)**	(17,234)
– inventories	**(2,087)**	(3,338)
– trade and other payables and amount due to a shareholder	**9,724**	11,041
– deferred revenue	**1,505**	18,358
Cash (used in)/generated from operations	**(4,709)**	9,863

(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 2010, the Group made sales of medical products of RMB6,417,000 to SPHCL, a shareholder of the Company (2009: RMB386,000).

(ii) In 2010, the Company sold a construction project to Qi Du for a total consideration of RMB28,494,000 (2009: RMB6,742,000 paid by Qi Du on behalf of the Company) (Note 5 and 6).

(iii) In 2010, the Company acquired all of SZCL's 31.25% interests in the Company's subsidiary Morgan-Tan with a total consideration of RMB848,000 (Note 20).

(iv) The related party balances as of 31 December 2010 and 31 December 2009 are disclosed in Notes 27, 28, 29, 35 and 36.

(v) Key management compensation

	2010	2009
Basic salary and allowances	**2,633**	2,476
Bonus	**330**	320
Retirement benefit and social security costs	**367**	320
	3,330	3,116

(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 2010			Year ended 31 December 2009		
	Research and development activities	**Sales of medical products and the provision of related ancillary services**	**Total**	Research and development activities	Sales of medical products and the provision of related ancillary services	Total
Turnover	**800**	**91,590**	**92,390**	2,098	59,807	61,905
Segment (loss)/profit	**(11,133)**	**19,072**	**7,939**	(10,836)	12,174	1,338
Unallocated income			**6,647**			2,218
Unallocated costs			**(10,600)**			(11,151)
Profit/(Loss) before income tax			**3,986**			(7,595)
Income tax expense			**(2,801)**			(879)
Profit/(Loss) for the year			**1,185**			(8,474)

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.

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

41 SEGMENTAL INFORMATION *(continued)*

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

	Research and development activities	Sales of medical products and the provision of related ancillary services	Unallocated activities	Total
31 December 2010				
Segment assets	27,352	155,449	121,351	304,152
Segment liabilities	(87,072)	(34,663)	(13,711)	(135,446)
Net	(59,720)	120,786	107,640	168,706
Other segment items				
Capital expenditure	1,509	10,479	3,113	15,102
Depreciation	3,391	562	1,440	5,394
Amortisation	—	1,436	894	2,330
Reversal of impairment of receivables	—	(174)	—	(174)
Write-down of inventories	—	977	—	977
Other non-cash incomes	(248)	(3,213)	(1,193)	(4,654)
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
Provision for impairment of receivables	—	(109)	—	(109)
Write-down of inventories	—	886	—	886
Other non-cash expenses	—	—	(3)	(3)

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 2010, the Group had future aggregate minimum lease payments due under non-cancellable operating leases in respect of buildings as follows:

	2010	2009
Within one year	—	263

(ii) Capital commitments

Capital expenditure contracted for at 31 December 2010 but not yet incurred is as follows:

	2010	2009
Property, plant and equipment	**22,761**	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 30). The Group has not hedged its foreign exchange rate risk since the exposure is not significant.

As of 31 December 2010, since most HKD balances have been exchanged into RMB, the Group is considered not to expose to any significant foreign exchange risks.

43 FINANCIAL RISK MANAGEMENT *(continued)*

(i) Financial risk factors *(continued)*

(a) Market risk *(continued)*

(2) Cash flow and 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 30), bank borrowings (Note 31) and loans from government authorities (Note 32).

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 31 and 32.

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 2010, 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 RMB295,000 (2009: 10%, RMB235,000) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings.

43 FINANCIAL RISK MANAGEMENT *(continued)*

(i) Financial risk factors *(continued)*

(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.

(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.

(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
Group				
At 31 December 2010				
Bank borrowings	25,029	6,965	—	—
Loans from government authorities	33,871	30	10,030	—
Trade and other payables/ Amount due to a shareholder	35,143	—	—	—
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	—	—	—
Company				
At 31 December 2010				
Bank borrowings	25,029	6,965	—	—
Loans from government authorities	23,841	—	—	—
Trade and other payables/ Amount due to a shareholder/Amount due to a subsidiary	34,415	—	—	—
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	—	—	—

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

43 FINANCIAL RISK MANAGEMENT *(continued)*

(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.

During 2010 and 2009, the Group's strategy is to maintain a gearing ratio within 50%. The gearing ratios at 31 December 2010 and 2009 were as follows:

	2010	2009
Total borrowings (Note 31 and 32)	**72,980**	64,650
Less: Cash and cash equivalents (Note 30)	**(90,305)**	(86,898)
Net debt	**(17,325)**	(22,248)
Total equity	**168,705**	168,368
Total capital	**151,380**	146,120
Gearing ratio	**-11%**	-15%

The increase in the gearing ratio during 2010 resulted primarily from the addition of loans (Note 31 and 32).

43 FINANCIAL RISK MANAGEMENT *(continued)*

(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 31 and Note 32, respectively.

44 SEBSEQUENT EVENTS

On 23 February 2011, the Company entered into a strategic cooperation agreement with SPHCL for the cooperation on innovative pharmaceutical research and development. Pursuant to the Strategic Cooperation Agreement, both parties will jointly share the risks of, and cooperate on, the research, development and commercialization of the relevant potential pharmaceuticals owned by the Group which are currently at various research stages. The Group anticipated that during the three years ending 31 December 2013, the annual transaction amounts for the continuing connected transactions under the Strategic Cooperation Agreement will not exceed RMB37,000,000, RMB32,000,000 and RMB40,000,000,respectively.

In February 2011, the Company terminated a contract of exclusive distribution rights with a pharmaceutical company (Note 4 and 34). To terminate the aforementioned contract with the pharmaceutical company, the Company agreed to pay RMB 4,600,000 as compensation.

45 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 24 March 2011.