復旦張江
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.

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

(Stock Code: 8231)

Annual Report 2005

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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.

Content

Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Lou Yi
Fang Jing
Jiang Guo Xing
Zhou Jie
Guo Jun Yu

INDEPENDENT NON-EXECUTIVE DIRECTOR

Pan Fei
Cheng Lin
Weng De Zhang

SUPERVISORS

Yang Xiao Hua *(Chairman)*
Guo Yi Cheng
Zhang Man Juan
Wei Dong Zhi
Ji Nuo

LEGAL REPRESENTATIVE

Wang Hai Bo

COMPANY SECRETARY

Wang Rui, ACCA

COMPLIANCE OFFICER

Zhao Da Jun

AUTHORISED REPRESENTATIVES

Zhao Da Jun
Wang Rui, ACCA

QUALIFIED ACCOUNTANT

Wang Rui, ACCA

AUDIT COMMITTEE

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

INTERNATIONAL AND STATUTORY AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Zhong Tian
Certified Public Accountants Ltd. Co.

REMUNERATION COMMITTEE

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

LEGAL ADVISERS TO THE COMPANY

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China,
Zhangjiang Sub-branch
China Construction Bank, GaoKe Road
Sub-branch
Shanghai Pudong Development Bank,
Xinchuan Sub-branch

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
46/F Hopewell Centre
183 Queen's Road East, Hong Kong

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

308 Cailun Road
Zhangjiang Hi-Tech Park
Pudong Shanghai 201203, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUTHORISED REPRESENTATIVE TO ACCEPT SERVICE OF PROCESS AND NOTICES

Or, Ng & Chan, Solicitors
15/F The Bank of East Asia Building
10 Des Voeux Road Central, Hong Kong

LISTING INFORMATION

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

WEBSITE

www.fd-zj.com

Chairman's Statement

On behalf of the board of directors ("the Board") of the Company, I present the annual report of the Company together with its subsidiaries (collectively as "the Group") for the year ended 31st December, 2005 for consideration by the shareholders.

BUSINESS REVIEW

Committed to the principle: "The more we explore, the healthier human beings will be" and pursuing the "research and development (R&D)" of genetic technology, drug screening technology, new drugs with patents and the industrialization of the specific drugs suitable for China market as core position, the Group aims to become a pioneer in the bio-pharmaceutical industry.

In respect of R&D, the Group has achieved the following results during the period under review:

- Applications have been made to the State Food and Drugs Administration of the PRC ("SFDA") for the approval of clinical study of Nifeviroc（尼非韋羅）, which is a new drug for the treatment of AIDS, Vincristine liposome（長春新鹼脂質體）, which is a new drug for the treatment of malignant lymphadenoma（惡性淋巴瘤）and leucocythemia（白血病）, and Duxorubicon liposome（鹽酸多柔比星脂質體）for the treatment of breast cancer.

- Four products, namely Unsweet Sugar（淡糖）for the treatment of diabetes, Recombinant Human Tumor Necrosis Recipient Fc Fusion Protein (Etanercept) for the treatment of arthritis, Hemporfin, a photodynamic therapy drug for the treatment of macular degeneration and Duxorubicon liposome for injection（鹽酸多柔比星脂質體注射液）for the treatment of Kaposi's sarcoma（卡泊氏肉瘤）, have been approved by the SFDA to enter into the stage of clinical study.

- Recombinant human lymphotoxin α-derivatives, a new drug for the treatment of tumors, has been approved by the SFDA to enter into stage II of clinical study.

- Clinical study of Aminolevulinic Acid Hydrochloride(ALA)（鹽酸氨酮戊酸）for the treatment of condyloma acuminata（尖銳濕疣）has been completed, and application has been made to the SFDA for New Drug Certificate and Production Permit.

- Application has been made to the SFDA for the Production Permit of medical diagnostic product – Eugene HLA-SSO Flow-Matrix genotyping kit（優諾基 HLA-SSO 流式螢光微珠基因分型試劑盒）.

The major drugs researched and developed by the Group up to the end of 2005 are summarized as follows:

Technical platform	Project name	Application	Progress made
Genetic engineering drugs	Recombinant tissue type plasminogen activator (r-tPA)	Heart infarction	Has been transferred, retaining technical commission
	Recombinant human parathyroid hormone derivatives (rhPTH)	Osteoporosis	Has been approved to enter into clinical study
	Recombinant human lymphotoxin α -derivatives	Tumor	Has been approved to enter into stage II clinical study
	Recombinant human interleukin-1 receptor antagonist (rhIL-1Ra)	Arthritis	Has been approved to enter into clinical study
	Recombinant Human Tumor Necrosis Recipient Fc Fusion Protein (Etanercept)	Arthritis	Has been approved to enter into clinical study; has transferred domestic and overseas rights respectively, retaining technical commission

Technical platform	Project name	Application	Progress made
Photodynamic therapy drugs	ALA (鹽酸氨酮戊酸)	Condyloma acuminata	Has completed clinical study; has applied for New Drug Certificate and Production Permit
	Hemporfin	Port wine stain	Has been approved to enter into clinical study
	Deuteporfin	Tumors	Has completed pre-clinical study
Liposome drugs	Duxorubicon liposome (鹽酸多柔比星脂質體)	Tumors	Has been approved to enter into clinical study
	Vincristine liposome (長春新鹼脂質體)	Tumors	Has applied to enter into clinical study
	Amphotericin-B liposome (兩性霉素B脂質體)	Dermatitis, epiphyte infection	Has completed pre-clinical study
Others	Down's Syndrome antenatal screening system	Down's Syndrome	Has been launched for sale
	Eugene HLA-SSO Flow-Matrix Genotyping Kit	Genotyping	Has applied for Production Permit

Technical platform	Project name	Application	Progress made
	Melberry root alkaloid tablets (桑根鹼片)	Diabetes	Has been approved to enter into clinical study
	Unsweet Sugar	Diabetes	Has been approved to enter into clinical study
	Nifeviroc	Diabetes	Has applied for clinical study

Note: Projects which have been transferred and the Group has no subsequent interests are not inclnded in the above

In respect of technology transfers, the Group is actively exploring for overseas markets. In February 2005, subsequent to the transfer of the overseas rights of a technology to a company in Taiwan, the Group transferred the Mainland rights of the technology to a company in the PRC for a consideration of RMB17,000,000, retaining a certain proportion of the sales revenue of the product. The Group has strategically transferred the Mainland rights and overseas rights of the R&D project of different companies, which assisted the Group to obtain the greatest benefit from the project.

In respect of patents, the Group has been actively protecting its intellectual property rights on its innovative medicines and research results. During the period under review, the Group has applied for 7 invention patents, including 1 Patent Cooperation Treaty (PCT) patent. As at 31st December 2005, the Group has applied for 32 intention patents in aggregate, and has been granted 10 invention patents.

In respect of commercialization, the Group is dedicated to the marketing of medical diagnostic products series, and has obtained 31 medical diagnostic product Medical Device Registration Certificates during the period under review, making the medical diagnostic product Medical Registration Certificates totaling to 44. The Group is fully committed to the exploration of medical diagnostic product markets, including the Down's Syndrome antenatal screening system.

Chairman's Statement

Since its establishment, the Group has always been complying with the industrial policies of the State, improving its capacity of developing new drugs, and has obtained the full support by the State, Shanghai municipality and the People's Government of Pudong New District. During the period under review, the Group has obtained the following supports and awards:

- The Group obtained grants from the various levels of government on research and development projects totaling RMB3,600,000.

- Having been appraised by the People's Government of Shanghai, the Company has become the major project undertaking entity for the Shanghai City Construction with Technology, and the Company's "Development and commercialization of target drugs for tumors and other hyperblastosis" project has obtained supports for an amount of RMB30 million in respect of the Shanghai City Construction with Technology project fund, of which RMB21 million is in the form of interest-free loans, and RMB9 million will be a subsidy upon the completion of the project. The project is for a term of three years, and is aimed at supporting major industrial technology key projects.

- After the assessment by the People's Government of Pudong New District, the Company obtained the support of "Perspective Project" project fund of Pudong New District for a term of three years. The interest incurred by the Company on a loan of RMB20 million can be paid by the project fund. The "Perspective Project" is aimed at providing support to technology enterprises having intellectual property rights, so as to expedite its commercialization process and enhance its innovative capability, in order to actively participate in international competition.

- The Group was accredited with 2005 "Enterprise Technology Innovative Award" by Zhangjiang High-tech Park.

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 "Summary of the State medium-long-term scientific and technology development plan (2006-2020)" recently published has confirmed the direction of the China special way of self innovation, and has also affirmed supports to those encouraged enterprises to become technological innovative bodies. It's calling for creating further conditions, optimizing environment, deepening reforms, and truly strengthening the dynamics and motives of enterprise technological innovation. Under this broad environment, the Group will certainly obtain more and better development opportunities.

After nearly a decade's R&D, the Group has a large number of drugs which are at the key point of being commercialized. Therefore, the Group is now undergoing the process of conversion from purely R&D to a combination of R&D and commercialization. In the future, the Group will focus its resources in both aspects of R&D and commercialization.

- R&D

  Over the past years, the Group has accumulated extensive experience in R&D, and has taken a leading position in the pharmaceutical industry in the PRC. The Group has established very close cooperative relationships with Life Science Research Institute of the Chinese Academy of Sciences, Shanghai Organic Chemistry Research Institute of the Chinese Academy of Sciences and Shanghai Institute of Medical Research of the Chinese Academy of Sciences, all being reputable domestic institutions. At the same time, the Group also made further cooperation 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, liposome drugs, and small molecule chemical drugs. In particular, among these sectors, drugs for the treatment of dermal diseases and tumors will be of the most importance.

  The clinical study in respect of the photodynamic new drug ALA (鹽酸氨酮戊酸) for the treatment of Condyloma acuminata has been completed, and application has been made for its New Drug Certificate and Production Permit. Clinical study on Duxorubicon liposome (鹽酸多柔比星脂質體) for the treatment of tumors has been commenced, and the clinical study and application for Production Permit are expected to be completed during the year. These two products are projects to be commercialized soon.

  The Group has many projects approved to enter into clinical study, and future clinical study will also be a key point. The Group will recruit more expertise, and actively and effectively carry out the clinical study.

- Commercialization

The Group's commercialization activities at present are mainly based on medical diagnostic products. The Group will continue to promote medical diagnostic products, including Down's Syndrome antenatal screening system, HLA genotyping chips, with the aim to further expand market shares.

To keep in line with the key direction of the Group's R&D, the Group will gradually increase the commercialization of the drugs for the treatment of dermal diseases and tumors from year 2006. The Group has arranged three drug product lines on each direction, and will gradually launch to the market by stages in the next few years, so as to form a product series package on these two directions:

◆ Dermal disease drugs

In respect of the commercialization of dermal disease drugs, the clinical study of photodynamic new drug ALA (鹽酸氨酮戊酸) for the treatment of Condyloma acuminata (尖銳濕疣) has been completed, and application has been made for its New Drug Certificate and Production Permit. The drug is expected to be launched before the end of 2006. This will be the first drug commercialized in this direction. Condyloma acuminata (尖銳濕疣) is one of the most common sexual contagious diseases in the modern society, with the morbidity being 20%-30% of all the venereal disease patients, ranking No. 2 or 3. According to the estimations of WHO in 2005, there are actually 16 million to 20 million new venereal disease cases in China every year, while new patient numbers of condyloma acuminate is 3 million – 6 million every year. It can be seen that this drug has a tremendous market capacity.

Subsequent drugs include Hemporfin and Amphotericin-B liposome (兩性霉素B脂質體). Hemporfin, a photodynamic drug for the treatment of port wine stains has now been approved to enter into clinical study. The pre-clinical study of Amphotericin-B liposome (兩性霉素B脂質體) for the treatment of intractable dermatitis and Mycotic infection (真菌感染) has been completed, and application will be made soon.

◆ Tumor treatment drugs

In respect of the commercialization of drugs for the treatment of tumors, clinical study on Duxorubicon liposome (鹽酸多柔比星脂質體) for the treatment of tumors has been commenced, and the clinical study and application for Production Permit are expected to be completed during the year, and is anticipated to be launched by 2007. This is the first drug in the direction of such commercialization. The drug is specially targeted at tumors such as breast cancer, which has become No. 1 in female tumor morbidity. According to the estimations of WHO, in 2005, there were approximately 7.6 million people died of various cancers in the world, of which, 500,000 died of breast cancer. According to the estimations, there are approximately 200,000 new discoveries of breast cancer in the PRC. The market capacity of the drug is tremendous.

Subsequent drugs include Vincristine liposome (長春新鹼脂質體) and lymphotoxin α-derivatives. Application has been made for the clinical study for Vincristine liposome (長春新鹼脂質體) for the treatment of malignant tumors, while lymphotoxin α-derivatives for the treatment of tumors has been approved to enter into stage II of the clinical study.

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

Name of drug	**Indications**	**Estimated launching time***
ALA (鹽酸氨酮戊酸)	Condyloma acuminata	Before end of 2006
Duxorubicon liposome (鹽酸多柔比星脂質體)	Tumors	2007
Amphotericin-B liposome (兩性霉素B脂質體)	Mycotic infection	2008
Hemporfin	Port wine stain	2009
Vincristine liposome (長春新鹼脂質體)	Tumors	2010
Lymphotoxin α-derivatives(淋巴毒素α-衍生物)	Tumors	2011

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

In order to be in line with the production of the first batch of the two drugs in the two commercialization directions, the Group's reforms to the production sites for these two products have been basically completed, so as to cope with the GMP certification and market launch of these two products.

Other than the above key commercialization directions, the remaining are technology projects intended to be transferred. In respect of these technology projects, the Group will not only take the transfer fees to be obtained as its sole target, but will also persistently obtain the rights to receive royalty fees on the sale of products developed from these technology projects, which can bring a long-term stable revenue to the Group. Under feasible circumstances, the Group will separately transfer the domestic and overseas rights of its non-key technology projects to maximize their values.

In respect of commercialization, the Group has the production and sales of diagnostic reagents, HLA genetic chips and Down's Syndrome antenatal screening system, in addition to dermal disease drugs and tumor treatment drugs which have been approved for production, and the Group will soon expedite to complete the conversion from purely R&D to both R&D and commercialization. The Group is in the process of establishing its marketing function and the Group will soon have complete functions through organic combination of the R&D, product manufacture and marketing functions, enabling the Company 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, 22nd March, 2006

Management Discussion and Analysis

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 ended 31 December 2005 amounted to approximately RMB20,117,000, compared to RMB10,567,000 for the same period in 2004. During the year under review, approximately RMB9,500,000 (or 47% of the total turnover) was derived from the income of technology transfer, and the rest of approximately RMB10,617,000 (or 53% of the total turnover) came from the sale of diagnostic products and the provision of the ancillary services. In contrast, approximately RMB4,200,000 (or 40% of the total turnover) was derived from the income of technology transfer, and the rest of approximately RMB6,367,000 (or 60% of the total turnover) came from the sale of diagnostic products and the provision of the ancillary services for the year 2004.

REVENUE FROM TECHNOLOGY TRANSFER

Income recognized from technology transfer for the year 2005 was approximately RMB9,500,000. Following the successful transfer of the overseas rights of a technology to a company in Taiwan, the Group managed to transfer the domestic rights of the same technology to a company in the PRC for a consideration of RMB17,000,000. During the year under review, the economic benefits flowed into the Group upon completion of certain stages of the project was RMB6,800,000. According to a contract signed with a Taiwan based pharmaceutical company, the Group transferred the overseas rights of another technology to that company for a consideration of RMB2,300,000, and has recognized an income of RMB1,000,000 in the year 2005. In addition, income of RMB1,700,000 was generated from the technology transfer of Mycophenolate Mofetil by a subsidiary of the Group, Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd.

REVENUE FROM SALE OF DIAGNOSTIC PRODUCTS AND PROVISION OF RELATED ANCILLARY SERVICES

Revenue of the Group from the sale of diagnostic products and the provision of ancillary services for the year ended 31 December 2005 was RMB10,617,000, increased by 67% from the same period last year. The main reason for the significant increase of the sales revenue is that the Group has launched a new product Down's Syndrome antenatal screening system to the market within the year under review, which has won a certain market recognition, and the sales income of which has stepped into a steady upward path.

COST OF SALES

For the year ended 31 December 2005, cost of sales of the Group was RMB12,093,000, while the corresponding figure for the same period last year was RMB8,325,000. The increase in cost of sales is lower than the increase in revenue, which indicates that cost control of the Group has been healthier.

OPERATING LOSS

For the year ended 31 December 2005, operating loss of the Group was RMB31,757,000, comparing to RMB24,446,000 for the year 2004. Total expenses grew up by 39% from that of last year as a result of the rising expenditure of the following items, leading to a dropping operating results.

- Research and development costs increased to RMB24,438,000 from last year figure of RMB18,440,000. The main reason for the difference was that the management had decided to turn a technology transfer project into a self-development project and as a result, the costs incurred would not meet all the criteria for deferred development cost. From a cautious perspective, the Company fully wrote off the amounts capitalized in the previous years as well as those incurred during the year.

- Distribution costs increased to RMB5,678,000 from RMB2,360,000 of the same period last year. This is mainly because the Group has devoted more resources in launching the new product Down's Syndrome antenatal screening system to the market.

- Administration and other expenses have also increased from those of last year respectively. This is because certain facilities of the building have been disposed of during the conversion of part of the building into production sites.

LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

A loss attributable to shareholders of the Company of RMB29,085,000 was recorded for the year ended 31 December 2005, compared with RMB24,901,000 for the same period in 2004.

SIGNIFICANT INVESTMENTS

For the year ended 31 December 2005, the Group did not have any significant investments.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the year ended 31 December 2005, the Group did not have any material acquisitions or disposals of subsidiaries and associated companies.

CONTINGENT LIABILITIES

As at 31 December 2005, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

As at 31 December 2005, there was no charge on the Group's assets.

BANKING FACILITIES

As at 31 December 2005, the Group had not applied for any banking facilities.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2005, the Group did not have any future plans for material investments or capital assets.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations and investing activities with internally generated financial resources, proceeds from the listing of Company's shares on the Hong Kong GEM Board in August 2002 and financial assistance as well as loans from municipal government authorities. As at 31 December 2005, the Group had outstanding loans from municipal government authorities of RMB 1,650,000 which are unsecured and interest free.

As at 31 December 2005, the Group had cash and cash equivalents of approximately RMB49,755,000.

The Group's gearing ratio as at 31 December 2005 was 0.16 (31 December 2004: 0.10) which is calculated based on the Group's total liabilities of RMB19,178,000 (31 December 2004: RMB 14,980,000) and capital and reserves attributable to shareholders of the Company of RMB120,564,000 (31 December 2004: RMB149,649,000).

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. The remaining cash proceeds from the issue of H shares are kept in HK dollar. The official exchange rate for HK dollar and RMB has generally been stable; however, the operating results and the financial position of the Group may be affected by the change in exchange rates.

On the other hand, the conversion of RMB denominated balances into foreign currencies and the remittance out of PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

EMPLOYEES AND SALARIES

As at 31 December 2005, the Group had a total of 144 employees, as compared to 137 employees as at 31 December 2004. Employee benefit expenses including directors' remuneration for the year ended 31 December 2005 and 2004 were RMB14,289,000 and RMB13,426,000, respectively. 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 headed "Remuneration committee" of the "Corporate governance report".

Report of the Directors

The Board is pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

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

The Group's turnover for the year 2005 was generated from technology transfer and sale of diagnostic products with the provision of related ancillary services.

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	42%	
Total of the five largest customers	69%	
Largest supplier		19%
Total of the five largest suppliers		51%

Save as disclosed in the 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 and financial position of the Group for the year ended 31 December 2005 are set out in the Consolidated Income Statement and the sections thereafter.

DIVIDENDS

At the meeting on 22 March 2006, the Board did not propose to declare any dividends for the year ended 31 December 2005.

Report of the Directors

SHARE CAPITAL

Details of movement in the share capital of the Group during the year are set out in note 32 to the financial statements.

RESERVES

Details of movement in the reserves of the Company during the year are set out in Statement of Changes in Equity and note 33 to the financial statements. On 31 December 2005, there was no distributable reserve to 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 15 to the financial statements.

STAFF RETIREMENT SCHEME

Details of the staff retirement scheme of the Group are set out in notes 2(n) and 8 to the financial statements.

STAFF QUARTERS

During the year, the Group has not provided staff quarters to its staff. Details of the housing provident fund provided to staff are set out in note 7 of the financial statements.

DIRECTORS AND SUPERVISORS

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

EXECUTIVE DIRECTORS:

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

NON-EXECUTIVE DIRECTORS:

Yu Qing Hua (Resigned on 24 June 2005)
Lou Yi
Fang Jing
Jiang Guo Xing
Zhou Jie (Appointed on 24 June 2005)
Guo Jun Yu (Appointed on 24 June 2005)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Pan Fei
Cheng Lin
Weng De Zhang

SUPERVISORS:

Han Ben Yi (Resigned on 24 June 2005)
Dai Yan Ling (Resigned on 24 June 2005)
Zhuang Xian Han (Resigned on 24 June 2005)
Yang Xiao Hua (Chairman, appointed on 24 June 2005)
Guo Yi Cheng (Appointed on 24 June 2005)
Zhang Man Juan (Appointed on 24 June 2005)
Wei Dong Zhi
Ji Nuo

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Refer to "Directors' and supervisors' service contracts" part 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 AND HIGHEST PAID INDIVIDUALS

Details of emoluments of Directors and highest paid individuals are set out in note 12 to the 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 (the "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 2005, 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 Domestic shares held	Capacity	Type of interest	Percentage holding in in Domestic shares	Percentage of holding 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 2005, 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 Pharmaceutical (Group) Corporation	Domestic Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	27.26%	19.66%
Shanghai Pharmaceutical Co., Ltd.	Domestic Shares	139,578,560 (L)	Beneficial Owner	Corporate	27.26%	19.66%
China General Technology (Group) Holding, Limited	Domestic Shares	130,977,816 (L)	Beneficial Owner	Corporate	25.58%	18.45%
Shanghai Zhangjiang (Group) Co. Ltd.	Domestic Shares	105,915,096 (L)	Interest of controlled corporation	Corporate	20.69%	14.92%
Shanghai Zhangjiang Hi-Tech Park Development Corp.	Domestic Shares	105,915,096 (L)	Beneficial Owner	Corporate	20.69%	14.92%
Fudan University	Domestic Shares	30,636,288 (L)	Beneficial Owner	Corporate	5.98%	4.31%
Shanghai Industrial Investment (Holdings) Co. Ltd.	H Shares	70,564,000 (L)	Interest of controlled corporation	Corporate	35.64%	9.94%
S.I. Pharmaceutical Holdings Ltd.	H Shares	65,856,000 (L)	Beneficial Owner	Corporate	33.26%	9.28%
SIIC Medical Science and Technology (Group) Limited	H Shares	4,708,000 (L)	Beneficial Owner	Corporate	2.38%	0.66%

FINANCIAL DATA HIGHLIGHT

A summary of the consolidated results of the Group for the three years ended 31 December, which have been extracted from the audited accounts of the Group, is as follows:

	Year ended 31 December		
	2005	2004	2003
	RMB'000	RMB'000	RMB'000
Total revenues	**20,117**	10,567	8,131
Operating loss	**(31,757)**	(24,446)	(20,206)
Finance costs	**—**	—	—
Share of results of an associate	**(2,900)**	(2,240)	(1,381)
Loss before income tax	**(34,657)**	(26,686)	(21,587)
Income tax credit	**4,301**	258	2,802
Loss for the year	**(30,356)**	(26,428)	(18,785)
Loss attributable to shareholders of the Company	**(29,085)**	(24,901)	(18,347)
Minority interests	**(1,271)**	(1,527)	(438)

ASSETS AND LIABILITIES

Summary of consolidated balance sheets of the Group for the three years ended 31 December, which have been extracted from the audited accounts of the Group, is as follows:

	As at 31 December		
	2005	2004	2003
	RMB'000	RMB'000	RMB'000
Total assets	**142,905**	169,063	195,032
Total liabilities	**(19,178)**	(14,980)	(14,521)
	123,727	154,083	180,511
Capital and reserves attributable to shareholders of the Company	**120,564**	149,649	174,550
Minority interests	**3,163**	4,434	5,961
	123,727	154,083	180,511

COMPETING INTERESTS

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

Shanghai Pharmaceutical Co., Ltd.

Investee company	Nature of business	Shareholding interests
Shanghai Tongyong Pharmaceutical Co., Ltd. (上海通用藥業股份有限公司)	Drug manufacturing	40%
Jingbo Yatai Bio-technology Co., Ltd (寧波亞太生物技術有限公司)	Drug manufacturing	89%
Shanghai Qingping Pharmaceutical Co., Ltd. (上海青平藥業有限公司)	Drug manufacturing	39%
Shanghai Hefeng Pharmaceutical Co., Ltd. (上海禾豐制藥有限公司)	Drug manufacturing	50%
Shanghai Fuda Pharmaceutical Co., Ltd. (上海福達制藥有限公司)	Drug manufacturing	70%
Shanghai Huashi Pharmaceutical Co., Ltd. (上海華氏制藥有限公司)	Drug manufacturing	100%
Shanghai Huashi Pharmaceutical Hi-Tech Industrial Development Co., Ltd. (上海華氏醫藥高科技實業發展有限公司)	Drug introduction and R&D of chemical and initiative drugs	100%

China General Technology (Group) Holding, Ltd.

Investee company	Nature of business	Shareholding interests
Hainan Tongmeng Pharmaceutical Co., Ltd. (海南同盟藥業有限公司)	Drug manufacturing	49%
Hainan Sanyang Pharmaceutical Co., Ltd. (海南三洋藥業有限公司)	Drug manufacturing	80.55%

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

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

CONNECTED TRANSACTIONS

For the year ended 31 December 2005, the Company did not have any connected transactions which need to be disclosed.

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 2005.

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 made discussions on the Group's audited 2005 annual results 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 auditor 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 on the publication of this report, the Board comprises:

Mr. Wang Hai Bo *(Executive Director)*
Mr. Su Yong *(Executive Director)*
Mr. Zhao Da Jun *(Executive Director)*
Mr. Lou Yi *(Non-executive Director)*
Ms. Fang Jing *(Non-executive Director)*
Mr. Jiang Guo Xing *(Non-executive Director)*
Mr. Zhou Jie *(Non-executive Director)*
Mr. Guo Jun Yu *(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, 22 March 2006

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 2005 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 2005.

To the point of view of the Supervisory Committee, the resolutions passed in all board meetings for the year 2005 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 Co., Ltd. have truly, objectively and accurately reflected the Company's financial position.

The Supervisory Committee is satisfied with the achievement and progress of the Company in 2005 and has great confidence in the future of the Company.

By order of the Supervisory Committee
Yang Xiao Hua
Chairman

As at the date on the publication of this report, the Supervisory Committee comprises:

Mr. Yang Xiao Hua
Mr. Guo Yi Cheng
Ms. Zhang Man Juan
Mr. Wei Dong Zhi
Mr. Ji Nuo

Shanghai, the PRC, 22 March 2006

Report of Audit Committee

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

The Audit Committee assists the Directors in discharging their duties through independent reviews and supervision of financial reporting, together with the Group's effective internal control and appointed 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 2005 is as follows:

1) Reviewed the financial reports for the year ended 31st December 2004, half year ended 30th June 2005, and the quarterly reports ended 31st March 2005 and 30th September 2005, respectively;

2) Reviewed the efficiency of the internal control;

3) Reviewed the statutory audit arrangements and explanations of the external auditors;

4) Reviewed and approved the audit fees for 2005;

5) Reviewed the duties of the Audit Committee, and made proposals to the Board to amend the "Principles of the Audit Committee" in compliance with the "Code on Corporate Governance and Practices";

6) Reviewed relevant connected transactions.

The Audit Committee meeting held on 22nd March 2006 has reviewed the Company's 2005 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 this report comply with relevant requirements of the applicable accounting principles and Listing Rules. Accordingly, the Audit Committee proposes that Board approves the announcement of the consolidated financial statements for the year ended 31st December 2005.

Report of Audit Committee

The Audit Committee has held regular meetings, at least four times annually, and in 2005, the Audit Committee has held four meetings, with attendance reaching 100%.

AUDIT COMMITTEE

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

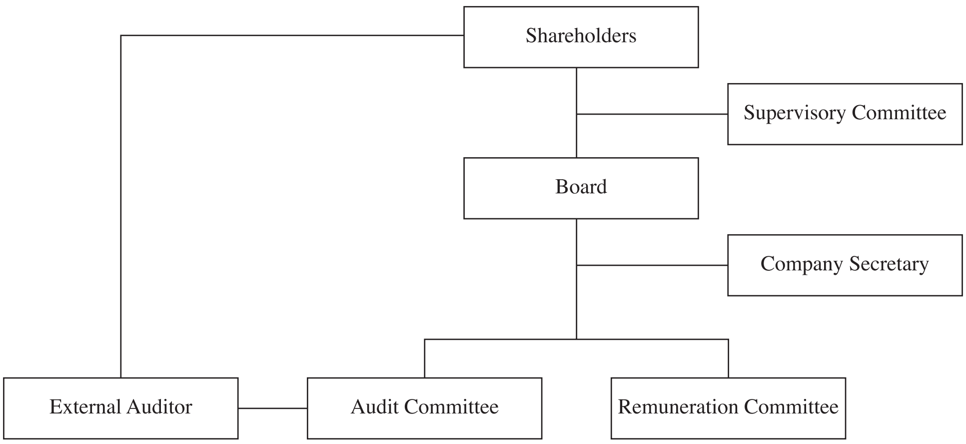
Shanghai, the PRC

22nd March 2006

Corporate Governance Report

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.

Corporate Governance Report

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.

- Board meetings held during 2005 exceeded four times.

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

- The chairman and the general manager is the same person at the same time. 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, two other Executive Directors, five Non-executive Directors and three Independent Non-executive Directors. Except for Mr. Zhou Jie and Mr. Guo Jun Yu who joined the Board as Non-executive Directors on 24th June 2005, all other Directors were in place in the whole year of 2005.

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)*	11th November 1996	24th June 2005	Three years
Su Yong	20th January 2002	24th June 2005	Three years
Zhao Da Jun	20th January 2002	24th June 2005	Three years
Non-executive Directors			
Yu Qing Hua	20th January, 2002	—	—
Lou Yi	25th June 2004	24th June 2005	Three years
Fang Jing	20th January 2002	24th June 2005	Three years
Jiang Guo Xing	11th November 1996	24th June 2005	Three years
Zhou Jie	24th June 2005	24th June 2005	Three years
Guo Jun Yu	24th June 2005	24th June 2005	Three years
Independent Non-executive Directors			
Pan Fei	20th June 2003	24th June 2005	Three years
Cheng Lin	10th July 2002	24th June 2005	Three years
Weng De Zhang	20th June 2003	24th June 2005	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 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 there are specific requirements on the duties of the Chairman and the general manager in the Articles of Association, to be responsible for the operating management of the Board and the daily management of the Company's business respectively, yet are still undertaken 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 five times during 2005. 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)*	5/5	100%
Su Yong	5/5	100%
Zhao Da Jun	5/5	100%
Non-executive Directors		
Yu Qing Hua (non re-appointed upon expiry on 24 June 2005)	1/3	33.3%
Lou Yi	2/5	40%
Fang Jing	4/5	80%
Jiang Guo Xing	4/5	80%
Zhou Jie (appointed on 24 June 2005)	1/2	50%
Guo Jun Yu (appointed on 24 June 2005)	1/2	50%
Independent Non-executive Directors		
Pan Fei	5/5	100%
Cheng Lin	5/5	100%
Weng De Zhang	5/5	100%

Note: Mr. Pan Fei and Mr. Cheng Lin have each delegated other Directors to attend as his proxy in one occasion.

The table below sets out the time and major agenda of Board meetings in 2005:

Time of Board meetings	Major agenda
29th March 2005	reviewed 2004 annual report; considered re-election of Directors and Supervisors; considered 2005 remuneration plans for Directors and Supervisors; determined the time for holding AGM.
11th May 2005	reviewed the first quarterly report of 2005
26th May 2005 (extraordinary meeting)	Considered the project of application for city construction with scientific education in Shanghai
10th August 2005	reviewed the report of 2005 interim results; re-elected members and chairman of the Audit Committee; set up the Remuneration Committee, and approved the "Principles of the Remuneration Committee"; approved the "Principles to be followed in the dealing of the Company's securities"
10th November 2005	reviewed consider the report of third quarterly results of 2005; amended the "Principles of the Audit Committee"

Note: Unless specifically stated, all refer to regular Board meetings.

Directors' and Supervisors' interests

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

The Group has not entered into any material contracts in which the Group's Directors, Supervisors have direct or indirect interests during any time in 2005.

Service contracts of Directors and Supervisors

The terms of each Director and Supervisor have been approved in the AGM held on 24th June 2005 to be for three years, and service contracts have been entered into 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 2005.

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 as Supervisors	Term
Han Ben Yi	25th June 2004	—	—
Dai Yan Ling	20th January 2002	—	—
Wei Dong Zhi *(Independent Supervisor)*	20th January 2002	24th June 2005	3 years
Ji Nuo *(Independent Supervisor)*	20th June 2003	24th June 2005	3 years
Zhuang Xian Han	20th January 2001	—	—
Yang Xiao Hua *(chairman)*	24th June 2005	24th June 2005	3 years
Guo Yi Cheng *(shareholders' representative)*	24th June 2005	24th June 2005	3 years
Zhang Man Juen *(staff representative)*	24th June 2005	24th June 2005	3 years

In 2005, 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 Company has re-formulated the Code for Securities Transactions by Directors of Listed Issuers, and passed it on 10 August 2005, with 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, one month before the date of every Board meeting to approve the Company's half yearly and annual results, with a reminder that the Director cannot deal in the securities of the Company until after such results have been published.

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 2005.

INTERNAL CONTROL

The Company's Audit Committee and the Board have reviewed the effectiveness of the internal control system of the Group, and considered that the scope of the Company is relatively small at present, therefore though no special internal control department has been set up, the effectiveness of the Company can still be guaranteed in respect of financial, operational, compliance and risk management.

The Company will further complete 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.

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. 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 2005, with an attendance rate of 100%. Senior management and/or external auditors were invited to attend each meeting. In 2005, 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 2005 quarterly, interim and the audited 2004 annual results before proposing to the Board for approval. The Audit Committee has discussed the fees of external auditors and audits, and has made proposals to the Board in respect of such issues.

Attendance of meetings of the Audit Committee in 2005:

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: Mr. Pan Fei and Mr. Cheng Lin have each delegated other Directors to attend as his proxy in one occasion.

Connected transactions

The Audit Committee has reviewed the connected transactions. For the year ended 31st December 2005, the monetary amount of the Company's connected transactions was small, and the connected transactions were exempted from disclosures.

EXTERNAL AUDITORS

The Group appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian Certified Public Accountants Ltd. Co. as the Group's international and statutory auditors respectively in 2005. The Company has not changed the international auditor 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 2005	Audit fees in 2004
PricewaterhouseCoopers	RMB700,000	HK$650,000
PricewaterhouseCoopers Zhong Tian Certified Public Accountants Ltd. Co.	RMB270,000	HK$250,000

The Company has not appointed the auditors for provision of services other than audit.

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 on 10th August 2005, and passed the "Principles of the Remuneration Committee", with specific terms of reference of the Remuneration Committee. The composition of the Remuneration Committee is as follows:

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)

Since the 2005 remuneration plans for directors and supervisors have been determined by the board as authorized by the general meeting, the Remuneration Committee did not meet in 2005. The Board discussed remuneration issues in one of the meetings, attended by the following Directors:

Wang Hai Bo, Su Yong, Zhao Da Jun (Executive Directors)
Lou Yi, Fang Jing, Jiang Guo Xing (Non-executive Directors)
Pan Fei, Cheng Lin, Weng De Zhang (Independent Non-executive Directors)

Refer to note 12 of the financial report for details of the remuneration of the Directors and senior management for 2005.

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 salary to Non-executive Directors and staff representative Supervisors other than the Independent Non-executive Directors, nor has it paid any statutory benefit to the Non-executive Directors and Independent Supervisors.

NOMINATION OF DIRECTORS

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

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

In 2005, Mr. Zhou Jie and Mr. Guo Jun Yu have been appointed as Directors through the above procedure. As the Company adopts the procedure of nomination by the Board and voting in the general meeting, and has so far been operating satisfactorily, there is therefore no need for setting up a Nomination Committee. In 2005, the Board discussed the issue of Directors' nomination in one of the meetings, attended by the following Directors:

Wang Hai Bo, Su Yong, Zhao Da Jun (Executive Directors)
Lou Yi, Fang Jing, Jiang Guo Xing (Non-executive Directors)
Pan Fei, Cheng Lin, Weng De Zhang (Independent Non-executive Directors)

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.

Based on the Company's publicly available information and so far as the Directors are aware, approximately 27.89% of the Company's total issued share capital are held by the public. 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 2005, only one AGM was held by the Company, details of which are as follows:

Time	10 a.m., 24 June 2005
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;
	Re-election of Directors and Supervisors;
	Approval on the amendments to the Articles of Association;
	General mandate for the issue of 20% of the Shares.

Arrangements for the dates of the quarterly results, interim results and AGM in 2006 are as follows:

Issues	**Proposed time**
Announcement of 2005 results	22 March 2006
Announcement of 2006 first quarterly results	Around 10 May 2006
AGM	16 June 2006
Announcement of 2006 interim results	Around 10 August 2006
Announcement of 2006 third quarterly results	Around 10 November 2006

By order of the Board

Wang Rui
Company Secretary

Shanghai, the PRC
22nd March, 2006

Profiles of Directors, Supervisors and Senior Management

DIRECTORS

EXECUTIVE DIRECTORS

Wang Hai Bo, aged 45, is an executive Director, the chairman of the Board and general manager of the Company. He founded the Company in November 1996. He graduated form 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 42, 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 Tumorigenesis 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 35, is an executive Director, deputy general manager, compliance officer and an authorized representative of the Company. He founded the Company in November 1996. 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. Mr. Zhao 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

Lou Yi, aged 48, graduated from Xin Jiang Medical University with a Ph.D. Mr. Lou did his post-doctoral research on applied economics in Fudan University. He used to be the managing director of Shanghai Bo Xing Gene Chip Co., and Shanghai Biochip Co., Ltd. He is currently the deputy managing director of General Technology Group Pharmaceutical Holding, Ltd. He was appointed as a non-executive Director in June 2004.

Fang Jing, aged 37, is the vice president of the investment 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 and was previously the assistant division head in the finance department of Shanghai Steel Cord Factory. She was appointed as a non-executive Director in January 2002.

Jiang Guo Xing, aged 53, is the Chairman of Shanghai Fudan Microelectronics Company Limited, a company listed on GEM. Mr. Jiang graduated from Fudan University and is a professor-level senior engineer. He is the general manager of Fudan Enterprise Development Company Limited, a wholly owned legal entity of Fudan University, and was previously the deputy general manager of Shanghai Fuhwa Industrial Joint Stock Company Limited in the PRC. Mr. Jiang has also been the managing director of Huayue Science and Technology Company Limited in Hong Kong. He was appointed as non-executive Director in November 1996.

Zhou Jie, aged 38, is the Executive Vice President of Shanghai Industrial Holdings Limited; Chief Planning Officer of SIIC Shanghai (Holding) Co., Ltd.; Vice Chairman of Board of both Shanghai Sunve Pharmaceutical Co., Ltd. and Hangzhou Huqingyutang Drugstore Co., Ltd.; Director of Shanghai Industrial United Holdings Co., Ltd., Chia Tai Qingchunbao Pharmaceutical Co., Ltd., Xia Men Traditional Chinese Medicine Co., Ltd., and Shanghai Sunve Biotech Co., Ltd; Chairman of the Supervisory Committee of Bright Dairy & Food Co. He graduated from Shanghai Jiao Tong University where he obtained a Master's Degree in Management Engineering. Mr. Zhou was once the Chairman of the Board and General Manager of Shanghai Shang Shi Asset Operations Ltd, and Deputy Manager of the Department of Investment Banking in Shanghai Wan Guo Inc. (now Shenyin & Wanguo Inc.). He has more than ten-year experience in the area of investment banking and capital market operation. He was appointed as a non-executive Director in June 2005.

Guo Jun Yu, aged 32, graduated from Shanghai Medical University with a bachelor's degree. He has a professional pharmacist qualification. He is currently the assistant to general manager and deputy manager of Medicine Distribution Business Unit of Shanghai Pharmaceutical Holdings Ltd, where he has been working for nearly 10 years. He's very experienced on sales and management of medical products. He was appointed as a non-executive Director in June 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pan Fei, aged 50, 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 43, is an associate professor in Shanghai University of Finance and Economics. Mr. Cheng 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. Mr. Cheng was appointed as an independent non-executive Director in July 2002.

Weng De Zhang, aged 43, 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

Yang Xiao Hua, aged 43, graduated from Shanghai Pedagogic University with a bachelor's degree. He is currently the assistant to general manager of Shanghai Dingjia Venture Capital Management Co., Ltd. He used to be the head of office of China Council for the Promotion of International Trade Pudong Branch, project manager in Shanghai Liuli Modern-Life Park Development Corp., and assistant to general manager of Shanghai Zhangjiang Venture Capital Co., Ltd. He was appointed as a supervisor representing shareholders in June 2005.

Guo Yi Cheng, aged 60, 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, and deputy general manager of Shanghai Pharmaceutical Co., Ltd. He is currently the Director and Deputy General Manager of General Technology Group Pharmaceutical Holding Limited. He was appointed as a supervisor representing shareholders in June 2005.

Zhang Man Juan, aged 42, 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 an Assistant Manager of the Finance Department of the Company. She was appointed as a supervisor representing employees in June 2005.

Wei Dong Zhi, aged 41, is an independent representative on the supervisory committee. He graduated from East China University of Science and Technology and holds a bachelor's degree and a Ph.D. in engineering. He is a Head of the biological engineering research institute of East China University of Science and Technology and Luhua Bio-tech Research Institute. He was appointed as an independent supervisor of the Supervisory Committee in January 2002.

Ji Nuo, aged 36, is an independent representative on the supervisory committee. He graduated from Fudan University and obtained master's degree in law. He is a partner of a law office, and a referee of China International Chamber of Commerce and China Council for the Promotion of International Trade. He was appointed as an independent supervisor of the Supervisory Committee in June 2003.

SENIOR MANAGEMENT

Liu Yan Jun, aged 41, 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. Mr. Liu 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 jointed the Company in January 2001.

Li Jun, aged 38, is a deputy general manager of the Company. He graduated form Fudan University with a master's degree in biology. He has been responsible for several research projects of the State Natural Science Fund, and has published numerous articles. He is currently responsible for the R&D of photodynamic project. He is a certified pharmacist. He jointed the Company in November 1996.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Wang Rui, aged 32, is the Qualified Accountant, Company Secretary and an authorized representative of the company. She obtained her bachelor's degree from Tongji University, Shanghai PRC and her MBA from Oxford Brookes University, UK. She is a member of The Association for Chartered Certified Accountants. She used to work in a high-tech development corporation in Shanghai for a few years, responsible for project management and strategic planning. Prior to joining the Company, Ms. Wang worked in an accounting firm in London, the United Kingdom, where she obtained her professional qualification. She joined the Company in November 2003, and is currently the financial controller of the Company.

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of上海復旦張江生物醫藥股份有限公司(Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.) (the "Company", and together with its subsidiaries, the "Group") will be held at 2nd Floor, No. 308 Cailun Road, Zhangjiang Hi-teck Park, Pudong, Shanghai, the PRC on Friday 16 June 2006 at 10:00 a.m. for the following purposes:

As ordinary resolutions:

1. To consider and approve the report of the Directors for the year ended 31 December 2005.

2. To consider and approve the report of the Supervisory Committee for the year ended 31 December 2005.

3. To consider and approve the audited accounts and the report of the auditor for the year ended 31 December 2005.

4. To consider and approve the profit distribution plan for the year ended 31 December 2005, and the final dividend distribution plan for the year ended 31 December 2005 (if any), and to authorize the board for the distribution of the final dividends (if any) to the Company's shareholders.

5. To consider and approve the appointment of the International and the PRC auditors of the Group for the year 2006 and to authorize the Board to determine their remunerations.

6. To consider and approve the remuneration policies for the Directors and Supervisors of the Company for the year ended 31 December 2005 and to authorize the Board to implement such remuneration policies.

7. To approve the resignation of Mr. Lou Yi from being a non-executive director and the resignation of Mr. Guo Yi Cheng from being a supervisor. To consider and approve the appointment of Zhou Mai as a non-executive director, and the appointment of Zhu Zu Shun as a supervisor, until the conclusion of the forthcoming annual general meeting around June 2008. Their resumes are set out in the appendix to this report. Details of the arrangements are as follows:

	Date of expiry	**Date of appointment**	**Date of expiry**
Lou Yi (resign from non-executive director)	Upon the conclusion of this annual general meeting		
Guo Yi Cheng (resign from supervisor)	Upon the conclusion of this annual general meeting		
Zhou Mai (to be appointed as non-executive director)		Upon the conclusion of this annual general meeting	Upon the conclusion of the forthcoming annual general meeting around June 2008
Zhu Zu Shun (to be appointed as supervisor)		Upon the conclusion of this annual general meeting	Upon the conclusion of the forthcoming annual general meeting around June 2008

As a special resolution:

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

THAT:

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

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

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

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

(ii) 20 per cent of the aggregate nominal amount of H Shares of the Company in issue,

in each case as at the date of this Resolution; and

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

For the purposes of this Resolution:

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

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

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

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

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

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

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

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

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

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

As an ordinary resolution:

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

By Order of the Board
Wang Hai Bo
Chairman

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

Mr. Wang Hai Bo *(Executive Director)*
Mr. Su Yong *(Executive Director)*
Mr. Zhao Da Jun *(Executive Director)*
Mr. Lou Yi *(Non-executive Director)*
Ms. Fang Jing *(Non-executive Director)*
Mr. Jiang Guo Xing *(Non-executive Director)*
Mr. Zhou Jie *(Non-executive Director)*
Mr. Guo Jun Yu *(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, 22 March 2006

Notes:

(A) The register of holders of H Shares of the Company will be closed from Wednesday 17 May 2006 to Friday 16 June 2006 (both days inclusive) during which period no transfer of H shares will be registered. Any holder of the H Shares of the Company and whose name appearing in the Company's register of holders of H Shares with Computershare Hong Kong Investor Services Limited at the close of business hours on Tuesday 16 May 2005 and have completed the registration process, will be entitled to attend the Annual General Meeting.

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

46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

(B) Holders of H Shares, who intend to attend the Annual General Meeting, must complete and return the reply slip to the Secretary to the Board of the Company not later than 20 days before the date of the Annual General Meeting, that is, before Saturday, 27 May 2006.

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

No. 308 Cailun Road
Zhangjiang Hi-tech Park
Pudong District
Shanghai
The PRC
Post Code: 201203
Tel : 86-21-58553628
Fax : 86-21-58553893

(C) Holder of H Shares entitled to attend the Annual General Meeting and having voting rights is entitled to appoint in writing one or more persons as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. For shareholders appointing more than one proxy, their proxies may exercise the voting rights by polling only. Shareholders who intend to appoint one or more proxies should first read the 2005 Annual Report of the Company.

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

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

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

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

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

APPENDIX

Profile of the candidate to be appointed as non-executive Director is as follows:

Zhou Mai, aged 48, graduated from the University of International Business and Economics with a Master's degree in Business Administration. He is a senior engineer. He used to be the deputy general manager of International Tendering Co. of China National Instruments Import & Export (Group) Corporation, the general manager of Wannuo Co. of China National Instruments Import & Export (Group) Corporation, the general manager of INSTRIMPEX Science & Technology Development Co., Ltd., the vice president of China National Instruments Import & Export (Group) Corporation, the vice president of China National Machinery Imp. & Exp. Corp., and the deputy general manager of CNTIC Trading Co., Ltd. He is currently the senior deputy general manager of General Technology Group Pharmaceutical Holding, Limited.

Profile of the candidate to be appointed as Supervisor is as follows:

Zhu Zu Shun, aged 38, 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. He is currently the general manager of the Audit Division of China General Technology (Group) Holding, Ltd.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

REPORT OF THE AUDITORS

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 accompanying balance sheet of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") and the consolidated balance sheet of the Company and its subsidiaries (together, the "Group") as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in equity of the Group for the year then ended. These financial statements set out on pages 55 to 104 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to 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.

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

In our opinion the financial statements present fairly, in all material respects, the financial position of the Company standing alone and of the Group as of 31 December 2005 and of the results of operations and cash flows of the Group 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2006

Consolidated Income Statement

For the year ended 31 December 2005
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December 2005	2004
Turnover	4	**20,117**	10,567
Cost of sales		**(12,093)**	(8,325)
Gross profit		**8,024**	2,242
Other income	5	**6,571**	6,588
Research and development costs		**(24,438)**	(18,440)
Distribution costs		**(5,678)**	(2,360)
Administrative expenses		**(12,417)**	(10,952)
Other operating expenses		**(3,819)**	(1,524)
Operating loss	6	**(31,757)**	(24,446)
Share of results of an associate	19	**(2,900)**	(2,240)
Loss before income tax		**(34,657)**	(26,686)
Income tax credit	9	**4,301**	258
Loss for the year		**(30,356)**	(26,428)
Attributable to:			
Shareholders of the Company	10	**(29,085)**	(24,901)
Minority interests		**(1,271)**	(1,527)
		(30,356)	(26,428)
Basic loss per share for loss attributable to the shareholders of the Company (RMB)	13	**(0.0410)**	(0.0351)

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

As of 31 December 2005

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

	Notes	Group As of 31 December 2005	Group As of 31 December 2004	Company As of 31 December 2005	Company As of 31 December 2004 Restated
Non-current assets					
Leasehold land payments	14	**8,864**	8,970	**8,864**	8,970
Property, plant and equipment	15	**51,565**	43,366	**49,661**	41,191
Technical know-how	16	**3,794**	6,386	**1,213**	2,755
Deferred development costs	17	**8,713**	17,218	**8,713**	16,921
Investments in subsidiaries	18	**—**	—	**15,250**	15,250
Investment in an associate	19	**55**	2,667	**7,200**	7,200
Deferred income tax assets	20	**7,786**	3,485	**7,786**	3,485
		80,777	82,092	**98,687**	95,772
Current assets					
Inventories	21	**1,963**	3,552	**1,963**	3,552
Trade receivables	22	**1,158**	1,864	**1,158**	1,864
Other receivables, deposits and prepayments		**1,285**	1,167	**1,005**	782
Amounts due from related companies	23	**1,000**	1,000	**1,000**	1,000
Amount due from a shareholder	24	**250**	250	**250**	250
Available-for-sale investments	25	**475**	2,318	**475**	2,318
Term deposits in bank with maturities of three to twelve months	26	**6,242**	11,896	**6,242**	11,896
Cash and cash equivalents	26	**49,755**	64,924	**46,458**	59,459
		62,128	86,971	**58,551**	81,121

Consolidated Balance Sheet of the Group and Balance Sheet of the Company (continued)

As of 31 December 2005
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Group As of 31 December		Company As of 31 December	
		2005	2004	**2005**	2004 Restated
Current liabilities					
Trade payables	27	**2,144**	3,060	**1,930**	3,046
Other payables and accruals		**12,090**	4,521	**11,184**	4,204
Deferred revenue	28	**2,294**	4,749	**1,694**	3,077
Loans from municipal government authorities	29	**1,650**	1,650	**1,650**	1,650
Amounts due to subsidiaries	30	**—**	—	**3,207**	3,510
Amount due to a shareholder	31	**1,000**	1,000	**1,000**	1,000
		19,178	14,980	**20,665**	16,487
Net current assets		**42,950**	71,991	**37,886**	64,634
Total assets less current liabilities		**123,727**	154,083	**136,573**	160,406
Capital and reserves attributable to shareholders of the Company					
Share capital	32	**71,000**	71,000	**71,000**	71,000
Reserves	33	**49,564**	78,649	**65,573**	89,406
		120,564	149,649	**136,573**	160,406
Minority interests		**3,163**	4,434	**—**	—
		123,727	154,083	**136,573**	160,406

Wang Hai Bo
Director

Zhao Da Jun
Director

22 March 2006

Consolidated Cash Flow Statement

For the year ended 31 December 2005
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December 2005	2004
Operating activities			
Cash used in operations	34(a)	**(12,336)**	(15,534)
Interest received		**160**	540
Net cash used in operating activities		**(12,176)**	(14,994)
Investing activities			
Purchase of property, plant and equipment		**(7,592)**	(6,057)
Payment for leasehold land		**—**	(3,950)
Additions in deferred development costs		**(2,365)**	(1,902)
Acquisition of technical know-how		**—**	(1,193)
Withdrawal of term deposits with maturities of three to twelve months		**5,654**	24,747
Interest received from term deposits with maturities of three to twelve months		**230**	1,007
Proceeds from disposal of property, plant and equipment		**252**	40
Proceeds from disposal of available-for-sale investments		**1,779**	1,553
Net cash (used in)/generated from investing activities		**(2,042)**	14,245
Financing activities			
Cash generated from/(used in) financing activities		**—**	—
Decrease in cash and cash equivalents		**(14,218)**	(749)
Cash and cash equivalents at beginning of the year		**64,924**	65,673
Exchange losses on cash and cash equivalents		**(951)**	—
Cash and cash equivalents at end of the year		**49,755**	64,924

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005
(All amounts are shown in RMB thousands unless otherwise stated)

	Attributable to shareholders of the Company					Minority interests	Total equity
	Share capital *(Note 32)*	Capital accumulation reserve *(Note 33)*	Statutory common reserve fund *(Note 33)*	Statutory common welfare fund *(Note 33)*	Accumulated losses *(Note 33)*		
At 1 January 2004	71,000	115,014	1,709	1,120	(14,293)	5,961	180,511
Loss for the year 2004	—	—	—	—	(24,901)	(1,527)	(26,428)
At 31 December 2004	71,000	115,014	1,709	1,120	(39,194)	4,434	154,083
Loss for the year 2005	—	—	—	—	(29,085)	(1,271)	(30,356)
At 31 December 2005	71,000	115,014	1,709	1,120	(68,279)	3,163	123,727

Notes to the Financial Statements

For the year ended 31 December 2005
(All amounts are shown in RMB thousands unless otherwise stated)

1 BACKGROUND INFORMATION

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

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

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

On 20 January 2002, all of the shares of the Company, being 53,000,000 ordinary shares with a par value of RMB1.00 each, were subdivided into 530,000,000 ordinary shares 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 the date of this report, the Company has direct interests of 68.75% and 65% in two subsidiaries, Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. ("Morgan-Tan") and Shanghai Ba Dian Medicine Co., Ltd. ("Ba Dian"), respectively.

The Company and its subsidiaries (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 diagnostic reagents 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 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements are prepared under the historical cost convention, except that the available-for-sale investments are shown 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 financial statements are disclosed in Note 3.

Standards, interpretations and amendments to published standards effective in 2005

In 2005, the Group adopted the new/revised standards and interpretations of IFRS below, which are relevant to its operations. The comparatives of prior years have been amended as required, in accordance with the relevant requirements.

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 32	Financial Instruments: Disclosures and Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities

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

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

The adoption of new/revised IASs 1, 2, 8, 10, 16, 17, 21, 24, 28, 32, 33, 36, 39 and 39 amendment did not result in substantial changes to the Group's accounting policies. In summary:

— IAS 1 has affected the presentation of minority interests, share of net results of associates and other disclosures.

— IASs 2, 8, 10, 16, 17, 24, 28, 32, 33, 36, 39 and 39 amendment had no material effect on the Group's policies.

— IAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance set out in the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

The adoption of revised IAS 27 results in a change in the accounting policy for investments in subsidiaries and associates in the Company's separate financial statements. Investments in subsidiaries and associates were previously accounted for using the equity method in the Company's separate financial statements. Equity accounting involves recognising in the income statement the Company's share of the subsidiaries' and associates' profit or loss for the year. The Company's interest in the subsidiaries and associates is carried in the balance sheet at an amount that reflects its share of the net assets of the subsidiaries and associates plus goodwill (net of any accumulated impairment loss) identified on acquisition. In accordance with the revised IAS 27(see note 2(b) and (c)), in the Company's balance sheet, investments in subsidiaries and associates are now stated at cost less provision for impairment losses, if any. The results of subsidiaries and associates are accounted for by the Company in the income statement on the basis of dividends received or receivable, if applicable. Such a change in accounting policy has been retrospectively applied and the effects to the Company's separate financial statements are as follows:

	2005	2004
Increase in investments in subsidiaries	**8,864**	6,224
Increase in investment in an associate	**7,145**	4,533
Decrease in opening accumulated losses	**10,757**	7,159
Decrease in net loss for the year	**5,252**	3,598

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of IAS 38. No adjustment resulted from this reassessment.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

All changes in the accounting policies have been retrospectively made in accordance with the respective transitional provisions, wherever required or allowed. The accounting policies set out in note 2(b) to 2(u) below have been consistently applied throughout the relevant years, other than IAS 39 which generally does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. Other than the adoption of the revised IAS 27 which resulted in restatement of the Company's separate financial statements, the adoption of the other new/revised standards and interpretations of IFRS did not result in any restatement.

The Group assessed the following standards, interpretations and amendments with respect to the Group's operations and concluded that they are not relevant to the Group.

IFRS 2	Share-based Payments
IFRS 3	Business Combinations
IFRIC amendment to SIC 12	Scope of SIC 12 Consolidation – Special Purpose Entities
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 6	Liabilities arising from Participating in a Specific Market: Waste Electrical and Electronic Equipment

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

IAS 1 Amendment	Capital Disclosures
IAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 Amendment	The Fair Value Option
IAS 39 and IFRS 4 Amendment	Financial Guarantee Contracts
IFRS 1	First-time Adoption of IFRS, and IFRS 6 Amendment
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Group is still assessing the impact of these standards, amendments and interpretations on its results of operations and financial position.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. 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 sheets, investments in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable, if applicable.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Investments in associates

Investments in associates are accounted for by the equity method of accounting. 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.

Equity accounting involves recognising in the income statement the Group's share of the associates' profit or loss for the year. The Group's interest in the associates is carried in the balance sheet at an amount that reflects its share of the net assets of the associates plus goodwill (net of any accumulated impairment loss) identified on acquisition.

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.

(d) Foreign currency transactions

(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 and presentation currency of the Company.

(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 income statement.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used to determine deferred income tax.

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.

(f) 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.

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(h)).

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

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 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) 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.

(h) Impairment of long lived assets

Property, plant and equipment and other non-current assets, including leasehold land payments, technical know-how and deferred development costs are reviewed for impairment losses 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 carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) 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 where 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 income statement on a straight-line basis over the period of the lease.

(j) 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 comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). 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.

(k) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade 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 receivables. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(l) 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.

(m) 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.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) 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 legal or constructive obligations to pay further contributions.

(o) Investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the expressed intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets.

Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective interest method. The changes in the fair value of available-for-sale investments are included in the equity and the accumulated fair value adjustments recognised in equity will be included in the income statement when the available-for-sale investments are sold or impaired. The fair value of investments is based on quoted bid prices or amounts derived from cash flow models.

(p) Deferred revenue

Deferred revenue represents 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 other non-refundable grants.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(q) 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 income statement 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 income statement on a straight line basis over the expected lives of the related assets.

(r) 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.

(s) Revenue recognition

(i) Sales of diagnostic reagents 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 diagnostic reagents, 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 commercialization 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 commercialization of the technology being transferred, the Company may receive additional royalty income or profit sharing income in the future. Should there be any royalty income or sharing of profit, they will be recognised when the right to receive the income is established.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(s) Revenue recognition *(continued)*

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

Interest income – as it accrues (taking into account the effective yield on the asset) unless collectibility is in doubt.

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

(t) Dividends

Dividends are recorded in the Group's financial statements in the year in which they are approved by the Group's shareholders.

(u) Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

The Group uses business segments as its primary segment reporting format.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experiences 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.

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.

(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.

(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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

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

(i) Research and development

The Group has recognised a deferred development cost of RMB9,177,000 up to 31 December 2004 for a development project with an intention of outright sales as technology transfer. In 2005, the Group's management determined to further develop such project for future self-production and sales of relevant products. Management has reassessed the applicable accounting policies and written off the deferred development costs carried forward from prior years as well as those incurred during the current year.

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 diagnostic reagents and the provision of related ancillary services in the PRC. Turnover recognised during the year are as follows:

	2005	2004
Technology transfer revenue	**9,500**	4,200
Sales of diagnostic reagents and the provision of related ancillary services	**10,617**	6,367
	20,117	10,567

On 14 February 2005, the Company entered into a technology transfer contract with a pharmaceutical company in Shandong Province to transfer Recombinant Human Soluble TNFR75 Fusion Protein for a total consideration of RMB17,000,000, of which an amount of RMB6,800,000 was received and recognised as revenue in 2005 as the Company completed respective milestones of the transfer as specified in the contract and economic benefits associated with the completion had flowed to the Company. Pursuant to the contract, the Company is entitled to receive royalty payments from the pharmaceutical company equal to 2%-5% of the future gross annual sales from the technology transferred over a period of 6 years starting from the approval of production. However, management estimates that the Company will not receive any significant royalty payments in the near future.

4 TURNOVER *(continued)*

On 27 September 2004, the Company entered into a technology transfer contract with a Taiwanese pharmaceutical company to transfer Filgrastim with a total consideration of RMB2,300,000, of which an amount of RMB500,000 was received in 2004 and another amount of RMB500,000 was received in 2005. In 2005, RMB1,000,000 was recognised as revenue as the Company completed respective milestones of the transfer as specified in the contract and economic benefits associated with the completion had flowed to the Company. Pursuant to the contract, the Company is entitled to receive royalty payments equal to 8% of the future gross annual sales from the technology transferred. However, management estimates that the Company will not receive any significant royalty payments in the near future.

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 RMB1,700,000 was received and recognised as revenue in 2005 (2004: RMB2,000,000) as Morgan-Tan completed respective milestones of the transfer as specified in the contracts and economic benefits associated with the completion had flowed to Morgan-Tan.

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

On 19 September 2003, Ba Dian, a subsidiary of the Company, entered into a technology transfer contract with a Singaporean pharmaceutical company to transfer TD506 and TD507 with a total consideration of RMB4,500,000, of which an amount of RMB200,000 was received and recognised as revenue in 2004 as Ba Dian completed respective milestones of the transfer as specified in the contract and economic benefits associated with the completion had flowed to Ba Dian. Pursuant to the contract, Ba Dian is entitled to receive royalty payments from the Singaporean pharmaceutical company equal to 5% of the future gross annual sales from the technology transferred over a period of 10 years starting from the commencement of production. However, management estimates that Ba Dian will not receive any significant royalty payments in the near future.

5 OTHER INCOME

	2005	2004
Amortisation of government grants and other non-refundable grants	**5,735**	4,929
Interest income	**390**	990
Realisation of previously unrecognised profit on technology transfer to an associate	**288**	288
Profit on disposal of available-for-sale investments	**—**	367
Others	**158**	14
	6,571	6,588

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

6 OPERATING LOSS

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

	2005	2004
Amortisation of leasehold land payments	**106**	107
Amortisation of deferred development costs (included in 'Cost of sales')	**1,819**	1,331
Amortisation of technical know-how (included in 'Research and development costs')	**1,416**	1,898
Amortisation of technical know-how (included in 'Administrative expenses')	**176**	194
	1,592	2,092
Auditors' remuneration	**920**	902
Provision for bad debts	**665**	261
Impairment of technical know-how	**—**	1,000
Cost of inventories sold	**10,274**	6,994
Depreciation of property, plant and equipment	**4,196**	3,915
Less: amount capitalised in deferred development costs	**(126)**	(32)
	4,070	3,883
Loss on disposal of property, plant and equipment	**2,891**	57
Exchange losses on cash and cash equivalents (included in 'Other operating expenses')	**951**	—
Operating lease rentals in respect of land and buildings	**113**	113
Research and development costs *(note (a))*	**24,438**	18,440
- Charge during the year	**15,261**	18,440
- Written off deferred development costs carried forward from prior year *(note 3(b))*	**9,177**	—
Loss/(profit) on disposal of available-for-sale investments	**64**	(367)
Provision for inventories obsolescence	**87**	—

(a) Research and development costs mainly represent the employee benefit expenses of technical staff involved and the consumables used in the research and development activities which did not satisfy the criteria for capitalisation as an asset. The employee benefit expenses of technical staff is also included in the employee benefit expenses disclosed in Note 7 below.

7 EMPLOYEE BENEFIT EXPENSES

	2005	2004
Wages and salaries	**10,519**	10,010
Housing subsidies	**1,958**	1,747
Social security costs	**892**	866
Retirement benefit costs *(note 8)*	**920**	803
Employee benefit expenses including directors' and supervisors' emoluments	**14,289**	13,426
Less: amount capitalised in the deferred development costs	**(488)**	(132)
	13,801	13,294
The number of employees at the end of the year	**144**	137

8 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 22.5% 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 RMB920,000 and RMB803,000 for the years ended 31 December 2005 and 31 December 2004, respectively.

9 INCOME TAX CREDIT

	2005	2004
Current income tax	**—**	—
Deferred tax credit *(note 20)*	**(4,301)**	(258)
	(4,301)	(258)

The Company is subject to the Income Tax Law of the PRC and the normal income tax rate applicable is 33%. As the Company is recognised as a New and High Technology Enterprise and is operating and registered in the State Level New and High Technology Development Zone, it is entitled to a reduced Income Tax rate of 15%. Accordingly, the Company is subject to Income Tax at a rate of 15%.

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

9 INCOME TAX CREDIT *(continued)*

In 2005, as the subsidiaries recognised as domestic companies registered in Shanghai Pudong New Area, they are also entitled to the reduced Income Tax rate of 15%. Accordingly, the subsidiaries are subject to Income Tax at a rate of 15% (2004:33%).

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

	2005	2004
Loss before income tax	**(34,657)**	(26,686)
Tax calculated at a tax rate of 15%	**(5,199)**	(4,003)
Effect of different tax rate in the subsidiaries	**—**	(833)
Effect of unrecognised tax losses of the Group	**860**	4,533
Utilisation of previously unrecognised tax losses of a subsidiary	**(25)**	—
Expenses not deductible for tax purpose	**63**	45
Tax credit	**(4,301)**	(258)

10 LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The loss attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB29,085,000 and RMB24,901,000 for the years ended 31 December 2005 and 31 December 2004, respectively.

11 DIVIDENDS

At the meeting on 22 March 2006, the Board of Directors recommended not to distribute any dividends in respect of the year ended 31 December 2005.

At the shareholders' Annual General Meeting on 24 June 2005, it was resolved not to distribute any dividends in respect of the year ended 31 December 2004.

12 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:

	2005	2004
Basic salaries and allowances	**1,134**	1,082
Bonus	**55**	148
Retirement benefit and social security costs	**96**	91
Fees	**80**	80
	1,365	1,401

RMB120,000 fees were paid and payable to the independent non-executive directors for the year (2004: RMB120,000).

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

	2005	2004
Executive director, Wang Hai Bo	**538**	529
Executive director, Su Yong	**378**	399
Executive director, Zhao Da Jun	**369**	393
Supervisor, Wei Dong Zhi	**40**	40
Supervisor, Ji Nuo	**40**	40
Independent non-executive director, Cheng Lin	**40**	40
Independent non-executive director, Pan Fei	**40**	40
Independent non-executive director, Weng De Zhang	**40**	40
	1,485	1,521

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

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

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

	2005	2004
Directors	**3**	3
Non-directors	**2**	2
	5	5

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

	2005	2004
Basic salaries and allowances	**565**	540
Bonus	**28**	104
Retirement benefit and social security costs	**59**	55
	652	699

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

(iv) During the years ended 31 December 2005 and 31 December 2004, 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.

13 LOSS PER SHARE

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

	2005	2004
Loss attributable to shareholders of the Company	**(29,085)**	(24,901)
Weighted average number of ordinary shares in issue (thousands)	**710,000**	710,000
Basic loss per share (RMB)	**(0.0410)**	(0.0351)

Diluted loss per share has not been calculated for the years ended 31 December 2005 and 31 December 2004 as there were no dilutive potential ordinary shares during the years then ended.

14 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.

	2005	2004
Net book value at 1 January	**8,970**	5,127
Additions	**—**	3,950
Amortisation	**(106)**	(107)
Net book value at 31 December	**8,864**	8,970

The original lease terms of the land use rights of the Group held outside Hong Kong are 50 years. The remaining lease periods of the land use rights of the Group outside Hong Kong are 46 and 50 years.

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

15 PROPERTY, PLANT AND EQUIPMENT

(i) The property, plant and equipment of the Group for the years ended 31 December 2005 and 31 December 2004 are as follows:

	Construction in progress	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Total
Cost					
At 1 January 2004	—	47,857	2,151	1,219	51,227
Additions	—	2,693	617	375	3,685
Disposals	—	(333)	(48)	—	(381)
At 31 December 2004	—	50,217	2,720	1,594	54,531
Additions	14,368	852	173	145	15,538
Disposals	—	(3,590)	(347)	(222)	(4,159)
At 31 December 2005	14,368	47,479	2,546	1,517	65,910
Accumulated depreciation					
At 1 January 2004	—	6,433	562	539	7,534
Charge for the year	—	3,379	285	251	3,915
Disposals	—	(262)	(22)	—	(284)
At 31 December 2004	—	9,550	825	790	11,165
Charge for the year	—	3,582	341	273	4,196
Disposals	—	(612)	(191)	(213)	(1,016)
At 31 December 2005	—	12,520	975	850	14,345
Net book value					
At 31 December 2005	14,368	34,959	1,571	667	51,565
At 31 December 2004	—	40,667	1,895	804	43,366

15 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(ii) The property, plant and equipment of the Company for the years ended 31 December 2005 and 31 December 2004 are as follows:

	Construction in progress	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Total
Cost					
At 1 January 2004	—	46,085	1,852	850	48,787
Additions	—	2,119	548	374	3,041
Disposals	—	(332)	(45)	—	(377)
At 31 December 2004	—	47,872	2,355	1,224	51,451
Additions	14,368	655	125	145	15,293
Disposals	—	(3,587)	(313)	(222)	(4,122)
At 31 December 2005	14,368	44,940	2,167	1,147	62,622
Accumulated depreciation					
At 1 January 2004	—	6,096	477	470	7,043
Charge for the year	—	3,080	239	181	3,500
Disposals	—	(262)	(21)	—	(283)
At 31 December 2004	—	8,914	695	651	10,260
Charge for the year	—	3,197	292	201	3,690
Disposals	—	(609)	(167)	(213)	(989)
At 31 December 2005	—	11,502	820	639	12,961
Net book value					
At 31 December 2005	14,368	33,438	1,347	508	49,661
At 31 December 2004	—	38,958	1,660	573	41,191

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

16 TECHNICAL KNOW-HOW

	Group		Company	
	2005	2004	**2005**	2004
Cost				
At beginning of the year	**12,442**	11,349	**7,188**	6,095
Acquisitions	**—**	1,093	**—**	1,093
Disposals	**(3,500)**	—	**(3,500)**	—
At end of the year	**8,942**	12,442	**3,688**	7,188
Accumulated amortisation				
At beginning of the year	**5,056**	2,964	**3,433**	2,391
Charge for the year	**1,592**	2,092	**542**	1,042
Disposals	**(1,500)**	—	**(1,500)**	—
At end of the year	**5,148**	5,056	**2,475**	3,433
Impairment charge				
At beginning of the year	**1,000**	—	**1,000**	—
Additions	**—**	1,000	**—**	1,000
Disposals	**(1,000)**	—	**(1,000)**	—
At end of the year	**—**	1,000	**—**	1,000
Net book value				
At end of the year	**3,794**	6,386	**1,213**	2,755

17 DEFERRED DEVELOPMENT COSTS

	Group		Company	
	2005	2004	**2005**	2004
Cost				
At beginning of the year	**21,051**	19,117	**20,754**	18,820
Capitalisation of costs	**2,491**	1,934	**2,491**	1,934
Write-off *(note 3(b))*	**(9,177)**	—	**(8,880)**	—
At end of the year	**14,365**	21,051	**14,365**	20,754
Accumulated amortisation				
At beginning of the year	**3,833**	2,502	**3,833**	2,502
Charge for the year	**1,819**	1,331	**1,819**	1,331
At end of the year	**5,652**	3,833	**5,652**	3,833
Net book value				
At end of the year	**8,713**	17,218	**8,713**	16,921

18 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2005	2004
Unlisted shares, at cost		
At beginning and end of the year	**15,250**	15,250

As described in note 2(a), the accounting policy for investments in subsidiaries in the Company's separate financial statements has been changed on a retrospective basis and the comparatives have been restated accordingly.

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

18 INVESTMENTS IN SUBSIDIARIES – COMPANY *(continued)*

As of 31 December 2005, the Company held the following investments in subsidiaries which are both limited liability companies:

Name	Country and date of establishment	Registered Capital	Attributable equity interest %	Principal activities and place of operation
Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. (上海摩根談國際生命科學中心有限公司)	PRC 31 August 1998	RMB8,000,000	68.75	Research and development ("R&D") of specialised bio-pharmaceutical projects and provision of related services in the PRC
Shanghai Ba Dian Medicine Co., Ltd. (上海靶點藥物有限公司)	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

19 INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2005	2004	**2005**	2004
Unlisted shares, at cost				
At beginning of the year	**7,200**	6,000	**7,200**	6,000
Transfer from 'Amount due from an associate'	**—**	1,200	**—**	1,200
At end of the year	**7,200**	7,200	**7,200**	7,200
Unrealised profit on technology transferred to associate				
At beginning of the year	**(912)**	(1,200)		
Realisation (note (a))	**288**	288		
At end of the year	**(624)**	(912)		
Share of results of an associate				
At beginning of the year	**(3,621)**	(1,381)		
Addition	**(2,900)**	(2,240)		
At end of the year	**(6,521)**	(3,621)		
	55	2,667		

As described in note 2(a), the accounting policy for investment in an associate in the Company's separate financial statements has been changed on a retrospective basis and the comparatives have been restated accordingly.

(a) This represents the current year realised amount of the previously unrecognised profit on technology transferred to Lead Discovery in the year ended 31 December 2002 (note 5).

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

19 INVESTMENT IN AN ASSOCIATE *(continued)*

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	RMB30,000,000	24	High throughput screening of new drugs, R&D of "me-too" and natural drug technologies in the PRC

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

	Assets	Liabilities	Revenues	Net loss
2005	10,727	7,899	548	(12,084)
2004	26,458	11,546	956	(9,334)

20 DEFERRED INCOME TAX ASSETS – GROUP AND COMPANY

	2005	2004
Deferred income tax assets (on net basis)		
At beginning of the year	**3,485**	3,227
Credited to the income statement for the year (note 9)	**4,301**	258
At end of the year	**7,786**	3,485

A potential deferred income tax asset, which represents mainly temporary difference arising from tax losses carried forward, has not been recognised in the 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 not recognised by the Group amounted to RMB30,173,000 and RMB24,606,000 as of 31 December 2005 and 31 December 2004. These tax losses will expire within five years from the respective balance sheet date and it is expected that the Group will not be able to utilise them to offset against future taxable profits before they expire.

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

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

Deferred income tax liabilities (on gross basis)

	Deferred development costs	Deferred revenue	Total
At 1 January 2004	(391)	(114)	(505)
Charged to the income statement	(508)	(483)	(991)
At 31 December 2004	(899)	(597)	(1,496)
(Charged)/credited to the income statement	(170)	597	427
At 31 December 2005	(1,069)	—	(1,069)

Deferred income tax assets (on gross basis)

	Provisions	Tax losses	Total
At 1 January 2004	529	3,203	3,732
Credited to the income statement	240	1,009	1,249
At 31 December 2004	769	4,212	4,981
Credited to the income statement	252	3,622	3,874
At 31 December 2005	1,021	7,834	8,855

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

21 INVENTORIES – GROUP AND COMPANY

	2005	2004
Raw materials	**1,044**	1,157
Production supplies and consumables	**207**	168
Contracted work-in-progress	**48**	35
Finished goods	**664**	2,192
	1,963	3,552

As of 31 December 2005, inventories including raw materials of RMB78,000 were carried at net realisable value.

As of 31 December 2004, inventories including raw materials of RMB54,000, and finished goods of RMB1,000 were carried at net realisable value.

22 TRADE RECEIVABLES – GROUP AND COMPANY

Details of the aging analysis are as follows:

	2005	2004
Current to 30 days	**43**	268
31 days to 60 days	**506**	303
61 days to 90 days	**384**	252
Over 90 days but less than one year	**236**	1,063
Over one year	**2,905**	2,229
	4,074	4,115
Less: provision for impairment	**(2,916)**	(2,251)
	1,158	1,864

Customers are generally granted credit term of 90 days.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers. Management believes that no additional credit risks beyond amounts provided for collection losses is inherent in the Group's trade receivables.

23 AMOUNTS DUE FROM RELATED COMPANIES – GROUP AND COMPANY

The amount represents a trade balance due from Shanghai HuaShi Pharmaceutical Hi-Tech Industrial Development Co., Ltd.("Shanghai HuaShi"), a wholly-owned subsidiary of Shanghai Pharmaceutical Co., Ltd. ("SPCL"), a shareholder of the Company. The amount is unsecured, interest free and repayable on demand.

24 AMOUNT DUE FROM A SHAREHOLDER – GROUP AND COMPANY

The balance represents an amount due from SPCL, a shareholder of the Company and is unsecured, interest free and repayable on demand.

25 AVAILABLE-FOR-SALE INVESTMENTS – GROUP AND COMPANY

	2005	2004
Listed funds in the PRC	**475**	1,318
Unlisted shares in the PRC	**—**	1,000
Available-for-sale investments at fair values	**475**	2,318
Current	**475**	2,318

26 CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
Cash and bank balances	**54,632**	62,972	**51,335**	61,007
Deposits in other financial institutions *(note (a))*	**1,365**	10,348	**1,365**	10,348
Held-to-maturity investments with maturities within three months *(note (b))*	**—**	3,500	**—**	—
Less: term deposits in bank with maturities of three to twelve months	**(6,242)**	(11,896)	**(6,242)**	(11,896)
	49,755	64,924	**46,458**	59,459

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

26 CASH AND CASH EQUIVALENTS *(continued)*

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

(b) The balance represents PRC listed debt securities purchased with fixed payments, fixed maturities and secured by certain PRC government bonds.

(c) The effective interest rate on cash placed with banks and deposits in other financial institutions ranged from 0.72%-2.55% (2004: 0.40%-2.60%) per annum.

27 TRADE PAYABLES

Details of the aging analysis are as follows:

	Group		Company	
	2005	2004	**2005**	2004
Current to 30 days	**1,867**	1,851	**1,667**	1,851
31 days to 60 days	**64**	19	**64**	19
61 days to 90 days	**3**	—	**3**	—
Over 90 days but less than one year	**1**	73	**1**	59
Over one year	**209**	1,117	**195**	1,117
	2,144	3,060	**1,930**	3,046

28 DEFERRED REVENUE

	Group		Company	
	2005	2004	**2005**	2004
Government grants *(note (a))*	**2,294**	4,249	**1,694**	2,577
Non-refundable grants *(note (b))*	**—**	—	**—**	—
Deferred contracted revenue *(note (c))*	**—**	500	**—**	500
	2,294	4,749	**1,694**	3,077

28 DEFERRED REVENUE *(continued)*

(a) Government grants

	Group		Company	
	2005	2004	**2005**	2004
At beginning of the year	**4,249**	4,473	**2,577**	3,773
Additions	**3,780**	4,605	**3,200**	3,005
Transfer to the income statement	**(5,735)**	(4,829)	**(4,083)**	(4,201)
At end of the year	**2,294**	4,249	**1,694**	2,577

(b) Non-refundable grants – Group and Company

	2005	2004
At beginning of the year	**—**	100
Transfer to the income statement	**—**	(100)
At end of the year	**—**	—

On 2 November 1999, the Group entered into an agreement with SPCL and pursuant to the agreement, the Group received non-refundable grants from SPCL amounting to RMB10,000,000 as funding for two separately identifiable projects. As a consideration, certain rights for these two projects will be granted, upon their successful completion, in favour of SPCL, as follows:

(i) Preferential right of acquisition of these two projects if the terms and conditions offered by SPCL are no less favourable than those offered by other third parties;

(ii) 30% of the net outright sales proceeds are rebated to SPCL if SPCL is not able to offer a price comparable to those offered by other third parties;

(iii) Other benefits as specified in the agreement in relation to distribution and manufacturing of pharmaceutical products if the Group decides to further develop the completed projects into products itself.

The technology related to one of the above two projects was transferred to a third party in the year ended 31 December 2002 and there remains an unpaid balance of 30% rebate to SPCL (note 31).

28 DEFERRED REVENUE *(continued)*

(c) On 27 September 2004, the Company entered into a technology transfer contract with a Taiwanese pharmaceutical company to transfer Filgrastim for a total consideration of RMB2,300,000. Deferred contract revenue of the Company and the Group amounted to RMB500,000 as of 31 December 2004 represented the portion of contract revenue received from such technology transfer but related to future performance. The deferred contract revenue was recognised as revenue in 2005 upon completion of respective milestone of the transfer as specified in the contract (note 4).

29 LOANS FROM MUNICIPAL GOVERNMENT AUTHORITIES – GROUP AND COMPANY

The loans from municipal government authorities are repayable as follows:

	2005	2004
Within one year	**1,650**	1,650

The loans represent government assistance from several PRC municipal government authorities and are unsecured and interest free. All of the loans as of 31 December 2005 are repayable on demand.

30 AMOUNTS DUE TO SUBSIDIARIES – COMPANY

The balance represent amounts due to Morgan-Tan and Ba Dian, subsidiaries of the Company and are unsecured, interest free and repayable on demand.

31 AMOUNT DUE TO A SHAREHOLDER – GROUP AND COMPANY

The amount represents an unpaid balance of 30% rebate to SPCL arising from the transfer of technology related to one of the funded projects to a third party (note 28(b)), and is unsecured, interest free and repayable on demand.

32 SHARE CAPITAL – GROUP AND COMPANY

	Number of shares (thousands)	**Share capital**
At 31 December 2005 and 31 December 2004	710,000	71,000

All authorised shares are issued and fully paid.

32 SHARE CAPITAL – GROUP AND COMPANY *(continued)*

(a) 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 with a par value of RMB0.10 each.

(b) On 12 August 2002, the Company completed a placing of newly issued 198,000,000 ordinary shares (H share) of RMB0.10 each at a price of HK dollar 0.80. The 198,000,000 H shares comprise 180,000,000 shares offered by the Company, and 18,000,000 shares converted from Domestic Shares held by the then existing shareholders pursuant to an approval from China Securities Regulatory Commission. The H shares commenced the trading on the GEM of the Stock Exchange on 13 August 2002. Therefore, the registered capital of the Company was increased to RMB71,000,000.

(c) 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)

33 RESERVES

(i) The reserves of the Group attributable to shareholders of the Company for the years ended 31 December 2005 and 31 December 2004 are as follows:

	Capital accumulation reserve	Statutory common reserve fund	Statutory common welfare fund	Accumulated losses	Total
At 1 January 2004	115,014	1,709	1,120	(14,293)	103,550
Loss for the year 2004	—	—	—	(24,901)	(24,901)
At 31 December 2004	115,014	1,709	1,120	(39,194)	78,649
Loss for the year 2005	—	—	—	(29,085)	(29,085)
At 31 December 2005	115,014	1,709	1,120	(68,279)	49,564

33 RESERVES *(continued)*

(ii) The reserves of the Company for the years ended 31 December 2005 and 31 December 2004 are as follows:

	Capital accumulation reserve	Statutory common reserve fund	Statutory common welfare fund	Accumulated losses	Total
At 1 January 2004, as previously reported	115,014	1,709	1,120	(14,293)	103,550
Effect of adopting the revised IAS 27 *(note 2(a))*	—	—	—	7,159	7,159
At 1 January 2004, as restated	115,014	1,709	1,120	(7,134)	110,709
Loss for the year 2004, as previously reported	—	—	—	(24,901)	(24,901)
Effect of adopting the revised IAS 27 *(note 2(a))*	—	—	—	3,598	3,598
Loss for the year 2004, as restated	—	—	—	(21,303)	(21,303)
At 31 December 2004, as restated	115,014	1,709	1,120	(28,437)	89,406
At 1 January 2005, as per above	115,014	1,709	1,120	(28,437)	89,406
Loss for the year 2005	—	—	—	(23,833)	(23,833)
At 31 December 2005	115,014	1,709	1,120	(52,270)	65,573

33 RESERVES *(continued)*

(a) The balance in the capital accumulation reserve represents share premium arising from the issue of shares at a price in excess of their par value. 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) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net profit, as determined under the PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the Company's employees. This fund is non-distributable other than in liquidation.

(d) 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 2005 (2004: nil).

34 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before income tax to cash used in operations

	2005	2004
Loss before income tax	**(34,657)**	(26,686)
Adjustments for:		
Amortisation of leasehold land payments	**106**	107
Depreciation of property, plant and equipment	**4,070**	3,883
Amortisation of government grants and other non-refundable grants received	**(5,735)**	(4,929)
Amortisation of technical know-how	**1,592**	2,092
Amortisation of deferred development costs	**1,819**	1,331
Loss/(profit) on disposal of available-for-sale investments	**64**	(367)
Loss on disposal of property, plant and equipment	**2,891**	57
Loss on write-off of deferred development costs	**9,177**	—
Interest income	**(390)**	(990)
Share of results of an associate	**2,900**	2,240
Realisation of previously unrecognised profit on technology transfer to an associate	**(288)**	(288)
Impairment of technical know-how	**—**	1,000
Exchange losses on cash and cash equivalents	**951**	—
Changes in working capital:		
- trade and other receivables and amounts due from a shareholder, related companies and an associate	**588**	107
- inventories	**1,589**	(950)
- trade and other payables	**(293)**	3,254
- deferred revenue	**3,280**	4,605
Cash used in operations	**(12,336)**	(15,534)

(b) Major non-cash transactions

There have been no major non-cash transactions in 2005 and 2004.

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

35 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.

In 2005, the Group paid a consulting fee of RMB400,000 to China General Technology (Group) Holding, Limited, a shareholder of the Company (2004: nil).

The related party balances as of 31 December 2005 and 31 December 2004 are disclosed in notes 23, 24, 28(b), 30 and 31.

36 SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to operating loss by principal activities is as follows:

	Year ended 31 December 2005			Year ended 31 December 2004		
	Research and development activities	Sales of diagnostic reagents and the provision of related ancillary services	Total	Research and development activities	Sales of diagnostic reagents and the provision of related ancillary services	Total
Turnover	**9,500**	**10,617**	**20,117**	4,200	6,367	10,567
Segment loss	**(11,880)**	**(5,229)**	**(17,109)**	(12,811)	(2,080)	(14,891)
Unallocated income			**836**			1,659
Unallocated costs			**(18,384)**			(13,454)
Loss before income tax			**(34,657)**			(26,686)
Income tax credit			**4,301**			258
Loss for the year			**(30,356)**			(26,428)

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

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

The Group derived all of its revenue and profit from customers who are located in the PRC and all the assets of the Group are located in the PRC. Hence, no separate geographical analysis of the segment information is presented.

36 SEGMENTAL INFORMATION *(continued)*

	Research and development activities	Sales of diagnostic reagents and the provision of related ancillary services	Unallocated activities	Total
31 December 2005				
Segment assets	28,149	38,218	76,538	142,905
Segment liabilities	(4,694)	(3,559)	(10,925)	(19,178)
Net	23,455	34,659	65,613	123,727
Other segment items				
Capital expenditure	3,513	14,193	197	17,903
Depreciation	2,253	1,204	739	4,196
Amortisation	1,416	1,965	136	3,517
Impairment charge	—	752	—	752
Other non-cash expenses	2,472	419	951	3,842
31 December 2004				
Segment assets	40,557	30,263	98,243	169,063
Segment liabilities	(8,198)	(2,369)	(4,413)	(14,980)
Net	32,359	27,894	93,830	154,083
Other segment items				
Capital expenditure	4,612	674	5,344	10,630
Depreciation	1,631	1,551	733	3,915
Amortisation	1,899	1,499	132	3,530
Impairment charge	1,000	261	—	1,261
Other non-cash expenses	8	36	13	57

Note: Unallocated activities mainly represented the holding of cash and bank deposits, available-for-sale investments and held-to-maturity investments by the Group during the year that cannot be allocated to the principal activities specifically.

The Group derived all of its revenue and profit from customers who are located in the PRC and all the assets of the Group are located in the PRC. Hence, no separate geographical analysis on the net operating assets is presented.

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

37 COMMITMENTS

(a) Operating lease commitments

As of 31 December 2005, the Group had future aggregate minimum lease payments due under non-cancellable operating leases in respect of buildings as follows:

	2005	2004
Within one year	**168**	113
In the second to fifth years inclusive	**74**	56
	242	169

(b) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2005	2004
Plant and machinery	**3,817**	—

38 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

(a) Fair values

The fair value of publicly traded available-for-sale investments is based on quoted market prices at the year end date of the year. In assessing the fair value of non-traded available-for-sale investments and the remaining financial instruments, the Group uses the estimated discounted value of future cash flows and makes assumptions that are based on market conditions existing at year end date.

The carrying amounts of the Group's cash and bank balances, trade receivables, held-to-maturity investments and trade payables approximate their fair values because of the short maturity of these instruments. The Group did not enter into any foreign exchange forward contracts to hedge against fluctuations.

38 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk

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

Cash is placed with banks and other financial institutions.

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

(c) Liquidity risk

The Group adopts prudent liquidity risk management which implies maintaining sufficient cash and marketable securities and the ability to apply for bank loan facilities if necessary.

(d) Interest 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 those disclosed in note 26 which are primarily cash placed with banks and other financial institutions in the PRC.

(e) Foreign exchange risk

The Group operates mainly in domestic market. The remaining cash proceeds from the issue of H shares are kept in HK dollar. The official exchange rate for HK dollar and RMB has generally been stable, however, the results of operations and the financial position of the Group may be affected by the change in the exchange rate.

On the other hand, the conversion of RMB denominated balances into foreign currencies and the remittance out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

39 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation, or restated as described in note 2(a).

40 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 22 March 2006.