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 2006

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

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Jiang Guo Xing
Fang Jing
Zhou Jie
Guo Jun Yu
Zhou Mai

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pan Fei
Cheng Lin
Weng De Zhang

SUPERVISORS

Yang Xiao Hua *(Chairman)*
Zhu Zu Shun
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 HONG KONG

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
CPAs Limited Company

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
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REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

15/F The bank of East Asia Building
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

On behalf of the board of directors ("the Board") of the Company, I present the annual report of the Company together with its subsidiaries (collectively as "the Group") for the year ended 31 December 2006 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:

- Application has been made to the State Food and Drugs Administration of the PRC ("SFDA") for clinical study on Vincristine liposome (長春新鹼脂質體) for the treatment of tumors, and has been approved to enter into clinical study in March 2007.

- New Drug Certificate and New Drug Registration Approval for Aminolevulinic Acid Hydrochloride (ALA) (鹽酸氨酮戊酸) for the treatment of condyloma acuminata (尖銳濕疣) were granted in February 2007.

- Clinical study on Duxorubicon liposome (鹽酸多柔比星脂質體) for the treatment of tumors has been completed and application for the New Drug Registration Approval is in progress. Meanwhile, clinical study on another application of the product has been approved.

- Application has been made for the New Drug Registration Approval for Amphotericin-B liposome (兩性霉素B脂質體) for the treatment of mycotic infection, and has been approved to enter into clinical study in March 2007.

The progress of R&D of the major drugs at end of 2006 of the Group is summarized as follows:

Technical platform made	Project name	Application	Progress
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 and has transferred domestic and overseas rights respectively, retaining technical commission
Photodynamic therapy drugs	ALA (鹽酸氨酮戊酸)	Condyloma acuminate	New Drug Certificate and New Drug Registration Approval have been granted in February 2007 and Certificate for GMP Certification will soon be granted
	Hemporfin	Port wine stain	Phase II clinical study is in progress
	Deuteporfin	Tumors	Will soon apply to enter into clinical study

Technical platform made	Project name	Application	Progress
Liposome drugs	Duxorubicon liposome (鹽酸多柔比星脂質體)	Tumors	Has applied for the New Drug Registration Approval, and another application has been approved to enter into clinical study
	Vincristine liposome (長春新鹼脂質體)	Tumors	has been approved to enter into clinical study in March 2007
	Amphotericin-B liposome (兩性霉素B脂質體)	Dermatitis, epiphyte infection	Has applied for the New Drug Registration Approval
Others	Down's Syndrome antenatal screening system	Down's Syndrome	Has been launched for sale
	HLA Genotyping Chips	Genotyping	Has been launched for sale
	Melberry root alkaloid tablets (桑根鹼片)	Diabetes	Has been transferred, retaining technical commission
	Unsweet Sugar	Diabetes	Has been approved to enter into clinical study
	Nifeviroc	Diabetes	has been approved to enter into clinical study in March 2007

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

In respect of technology transfers, no new project transfers have been carried out in 2006 as the Group prefers to implement the commercialization of projects in a different way rather than to obtain short-term revenue through technology transfers.

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 12 invention patents and 3 of which have been granted. As at 31 December 2006, the Group has applied for 40 intention patents in aggregate, and 13 of which have been granted.

In respect of commercialization, the Group is dedicated to the marketing of medical diagnostic products series. Meanwhile, in order to match the upcoming production of Aminolevulinic Acid Hydrochloride (ALA) and Duxorubicon liposome, the Group has completed the reconstruction of the relevant production site and has made various pre-production preparations.

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 Area. During the period under review, the Group has obtained the following supports and awards:

- The Group obtained grants from various levels of government authorities on R&D projects totalling RMB2,371,000.
- As evaluated by the People's Government of Shanghai, the Company became a major project undertaking entity for the Shanghai City Construction with Technology, and has obtained support with an amount of RMB30 million from the Shanghai City Construction & Technology project fund, for the Company's "Development and commercialization of target drugs for tumors and other hyperblastosis" project, of which RMB21 million is in the form of a three-year 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 with an aim to sustain major industrial technology projects. Funds obtained in 2006 amounted to RMB11 million.
- After the assessment by the People's Government of Pudong New Area, the Company obtained the support of "Wise-eye Project" fund of Pudong New Area for a term of three years. The interest incurred by the Company on a loan of RMB20 million will be paid by the project fund. The "Wise-eye Project" is aimed at providing support to technology enterprises that have intellectual property rights, so as to expedite their commercialization process, enhance their innovative capability, and to actively involve in international competition. The whole amount of the loan has been offered in 2006.

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)" which has been published has confirmed the direction of the China special way of self innovation, and has also affirmed supports to those encouraged enterprises to become technologically 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.

  New Drug Certificate and New Drug Registration Approval for the photodynamic new drug ALA (鹽酸氨酮戊酸) for the treatment of Condyloma acuminata have been granted, and Certificate for GMP Certification will soon be obtained. The Company is waiting for the New Drug Registration Approval to be granted to Duxorubicon liposome (鹽酸多柔比星脂質體) for the treatment of tumors. These two products are projects to be commercialized soon.

  Many projects of the Group have been approved to enter into clinical study, and future clinical study will also be a key task. The Group will recruit more expertise, and will actively and effectively carry out the clinical study.

- Commercialization

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

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

♦ Dermal disease drugs

In respect of the commercialization of dermal disease drugs, New Drug Certificate and New Drug Registration Approval for photodynamic new drug ALA (鹽酸氨酮戊酸) for the treatment of Condyloma acuminata (尖銳濕疣) have been granted. The drug is expected to be launched in the first quarter of 2007. 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). The Phase II clinical study on Hemporfin, a photodynamic drug for the treatment of port wine stains, is being undertaken. Application has been made for the New Drug Registration Approval for Amphotericin-B liposome (兩性霉素B脂質體) for the treatment of intractable dermatitis and Mycotic infection (真菌感染).

♦ Tumor treatment drugs

In respect of the commercialization of drugs for the treatment of tumors, the Company is waiting for the New Drug Registration Approval of Duxorubicon liposome (鹽酸多柔比星脂質體) for the treatment of tumors, and is anticipated to be launched in 2008. This is the first drug in the direction of commercialization. The drug is specially targeted at tumors such as breast cancer, which has become No. 1 disease 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 (淋巴毒素α-衍生物). 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 (淋巴毒素α-衍生物) 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 drugs	**Indications**	**Estimated launching time***
ALA (鹽酸氨酮戊酸)	Condyloma acuminata	2007
Duxorubicon liposome (鹽酸多柔比星脂質體)	Tumors	2008
Amphotericin-B liposome (兩性霉素B脂質體)	Mycotic infection	2009
Hemporfin	Port wine stain	2010
Vincristine liposome (長春新鹼脂質體)	Tumors	2011
Lymphotoxin α-derivatives (淋巴毒素α-衍生物)	Tumors	2012

* 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 completed and all preparations for commercialization have been finished, so as to cope with the GMP certification and market launch of these two products.

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.

In March 2007, the Company established a wholly-owned subsidiary, Taizhou Pharmaceutical (泰州藥業) in Taizhou, Jiangsu. Production lines will be constructed by stages based on the progress achieved in the development of the Company's products so that the subsidiary will gradually develop into a comprehensive production and manufacturing base integrating various production lines of the Company. Taizhou Pharmaceutical intends to purchase land in the Taizhou Medical High Technology Industrial Park for the constructing of its plant. However, given the limited land available at the Company's current location, proceeding with production at the current location will affect the development of the Company. Besides, land prices in other areas of Shanghai are extremely high and human resources cost in Shanghai is also higher than that in cities surrounding Shanghai.

The Group is currently in discussion with Nanjing Medical Company Limited (南京醫藥股份有限公司) (its A shares are listed on the Shanghai Stock Exchange), Taizhou Huaxin Medical Investment Co. Ltd. (泰州華信醫藥投資有限公司) and Taizhou Science Park Huayuan Investment Development Co. Ltd. (泰州科技園華源投資發展有限公司) on the possibility of injecting capital into the Company's Taizhou Pharmaceutical by them.

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
21 March 2007

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 2006 amounted to approximately RMB19,764,000, compared to RMB20,117,000 for the same period in 2005. During the year under review, approximately RMB7,950,000 (or 40% of the total turnover) was derived from the income of technology transfer, and the rest of approximately RMB11,814,000 (or 60% of the total turnover) came from the sale of diagnostic products and the provision of the ancillary services. In contrast, 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 for the year 2005.

REVENUE FROM TECHNOLOGY TRANSFER

Income recognized from technology transfer for the year 2006 was approximately RMB7,950,000. There's no technology newly transferred during 2006. Technology transfer income recognized came from two projects, the contracts of which were signed in previous years, with tasks completed by stages within the period under review as stipulated by the contracts.

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 2006 was RMB11,814,000, increased by 11% from the same period last year. The new product Down's Syndrome antenatal screening system that the Group launched to the market in 2005, has won a certain level of market shares. Its sales income has stepped into a steady upward path, which has made contributions to the Group's sales of diagnostic products.

COST OF SALES

For the year ended 31 December 2006, cost of sales of the Group was RMB9,413,000, while the corresponding figure for the same period last year was RMB12,093,000. Cost of sales reduced by 22% from that of last year, and the ratio of cost of sales to sales also dropped to 48% from 60% for the same period last year.

OPERATING LOSS

For the year ended 31 December 2006, operating loss of the Group was RMB21,309,000, comparing to RMB31,757,000 for the year 2005. Total expense has been cut down by 33%, due to an effective control on costs and expenditure executed by management. Expenditure and other income presented before operating loss are as follows:

- R&D costs decreased to RMB15,570,000 from RMB24,438,000 for that of last year. In 2005, the management determined to further develop a project, which was to be transferred according to the original plan, for self-production and sales of the relevant products, and has consequently decided to write off the related deferred development costs carried forward from prior years with an amount of RMB9,177,000. This resulted in a significant increase of R&D costs in the year 2005. No such cost incurred for 2006.

- Distribution and marketing costs grew up to RMB7,285,000 from RMB5,678,000 for the same period last year. The group expanded its marketing and sales team during the year and invested a large amount of resource into market exploration for the new product ALA (鹽酸氨酮戊酸).

- Administration and other expenses have also been reduced by 14% and 61% from those of last year respectively, attributed to a tighter control of general administrative fees and other non-operating expenses by the management.

- Other income decreased by 48%. This item mainly comprises of the amortization of government grants. The decrease of this income is caused by a relatively lower level of subsidy granted by the government in recent years than previous years. Along with the conclusion of some R&D projects, most of the grants have been fully amortized before the year 2006.

LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

A loss attributable to shareholders of the Company of RMB20,956,000 was recorded in the consolidated financial statements for the year ended 31 December 2006, compared with RMB29,085,000 for the same period in 2005.

The loss attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB22,309,000 and RMB23,833,000 for the years ended 31 December 2006 and 31 December 2005, respectively.

SIGNIFICANT INVESTMENTS

For the year ended 31 December 2006, the Group did not have any significant investments.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the year ended 31 December 2006, the Group did not have any material acquisitions or disposals of subsidiaries and associated companies.

CONTINGENT LIABILITIES

As at 31 December 2006, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

On 10 March and 23 June 2006 respectively, the Group put its real estate property in pledge to obtain an interest-free loan granted by "Technology and Education Promoting Shanghai" project, and a full-interest-subsidized loan given by Pudong "Wise-eye project" respectively. The mortgaging period depends on the time to redemption of the loans.

BANKING FACILITIES

Aided by the "Technology and Education Promoting Shanghai" project, the Group took a loan of RMB11,000,000 on 12 April 2006 which are due for repayment on 31 December 2011. The loan is interest-free if it is fully repaid before 31 December 2009. Interest has to be paid if the loan is fully repaid between 1 January 2010 to 31 December 2011.

Assisted by the Pudong "Wise-eye project", the Group took a bank loan of RMB20,000,000 on 12 July 2006 which are due for repayment on 10 July 2009. Full amount of the interest of the loan is subsidized by the Pudong New Area government.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Company made an announcement on 4 January 2007 to establish a wholly-owned subsidiary Taizhou Fudan Zhangjiang Pharmaceutical Company Limited ("Taizhou Pharmaceutical") in Taizhou City of Jiangsu Province, with a registered capital of RMB60 million, which would be contributed by intangible asset valued at RMB40 million and cash of RMB20 million. Taizhou Pharmaceutical will be the production and manufacturing base of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations and investing activities with internally generated financial resources, proceeds from the listing of the Company's shares on the Hong Kong GEM Board in August 2002, and interest-free and interest-subsidized commercial loans supported by the municipal government authorities. As at 31 December 2006, the Group had outstanding interest-free loans of RMB12,650,000, of which RMB1,650,000 are unsecured, and an outstanding secured bank loan of RMB20,000,000 with interest fully subsidized.

As at 31 December 2006, the Group had cash and cash equivalents of approximately RMB44,180,000.

The Group's gearing ratio as at 31 December 2006 was 0.43 (31 December 2005: 0.16) which is calculated based on the Group's total liabilities of RMB43,320,000 (31 December 2005: RMB19,178,000) and capital and reserves attributable to shareholders of the Company of RMB99,608,000 (31 December 2005: RMB120,564,000).

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

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND SALARIES

As at 31 December 2006, the Group had a total of 162 employees, as compared to 144 employees as at 31 December 2005. Staff costs including directors' remuneration for the year ended 31 December 2006 were RMB14,449,000, and RMB14,289,000 for the year ended 31 December 2005.The salaries and benefits of employees of the Group are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory social welfare plans, are also provided to employees.

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

The Board is pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

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

The Group's turnover for the year 2006 was generated from technology transfer and sale of diagnostic products with the provision of related ancillary services.

An analysis of the Group's performance for the year ended 31 December 2006 by business segments is set out in note 39 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS OF DIANOSTIC REAGENT

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

	Proportion in the Group's total	
	Sales	**Purchases**
Largest customer	30%	
Total of the five largest customers	53%	
Largest supplier		24%
Total of the five largest suppliers		53%

None of the Directors, their respective associates or any shareholder of the Company who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company has any beneficial interest in any of the Group's five largest customers or suppliers of the Group.

RESULTS

The results of the Group for the year ended 31 December 2006 are set out in the Consolidated Income Statement of the financial statements.

DIVIDENDS

At the meeting on 21 March 2007, the Board did not propose to declare any dividends for the year ended 31 December 2006.

SHARE CAPITAL

Details of movement in the share capital of the Company during the year are set out in note 35 to the financial statements.

RESERVES

Details of movement in the reserves of the Group and of the Company during the year are set out in Consolidated Statement of Changes in Equity and note 36 to the financial statements. On 31 December 2006, 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 16 to the financial statements.

STAFF RETIREMENT BENEFIT SCHEME

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

STAFF QUARTERS

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

DIRECTORS AND SUPERVISORS

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

EXECUTIVE DIRECTORS:

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

NON-EXECUTIVE DIRECTORS:

Lou Yi (Resigned on 16 June 2006)
Jiang Guo Xing
Fang Jing
Zhou Jie
Guo Jun Yu
Zhou Mai (Appointed on 16 June 2006)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Pan Fei
Cheng Lin
Weng De Zhang

SUPERVISORS:

Yang Xiao Hua *(Chairman)*
Guo Yi Cheng (Resigned on 16 June 2006)
Zhang Man Juan
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

4) Report of remuneration committee

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

PROFILE OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

Details of emoluments of Directors and highest paid individuals are set out in note 13 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 2006, 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 Domestic shares	Percentage of holding in total share capital
Wang Hai Bo	Domestic Shares	51,886,430 (L)	Beneficial owner	Personal	10.13%	7.31%
Su Yong	Domestic Shares	18,312,860 (L)	Beneficial owner	Personal	3.58%	2.58%
Zhao Da Jun	Domestic Shares	15,260,710 (L)	Beneficial owner	Personal	2.98%	2.15%
Fang Jing	Domestic Shares	5,654,600 (L)	Beneficial owner	Personal	1.10%	0.80%

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

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2006, 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%
Cheng Ken Yi	H Shares	19,796,000 (L)	Interest of controlled corporation	Individual	9.99%	2.79%
Legitimate Assets Limited	H Shares	19,796,000 (L)	Beneficial Owner	Corporate	9.99%	2.79%

FINANCIAL DATA HIGHLIGHT

A summary of the consolidated results of the Group for the two years ended 31 December 2006, which have been extracted from the audited accounts of the Group, is as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Total revenues	**19,764**	20,117
Operating loss	**(21,309)**	(31,757)
Finance costs	**(712)**	—
Share of results of an associate	**264**	(2,900)
Loss before income tax	**(21,757)**	(34,657)
Income tax (charge) / credit	**(273)**	4,301
Loss for the year	**(22,030)**	(30,356)
Loss attributable to shareholders of the Company	**(20,956)**	(29,085)
Minority interests	**(1,074)**	(1,271)

ASSETS AND LIABILITIES

Summary of consolidated balance sheets of the Group for the two years ended 31 December 2006, which have been extracted from the audited accounts of the Group, is as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Total assets	**145,017**	142,905
Total liabilities	**43,320**	(19,178)
	101,697	123,727
Capital and reserves attributable to shareholders of the Company	**99,608**	120,564
Minority interests	**2,089**	3,163
	101,697	123,727

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 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 2006, 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 2006.

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 annual results for 2006 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. Jiang Guo Xing *(Non-executive Director)*
Ms. Fang Jing *(Non-executive Director)*
Mr. Zhou Jie *(Non-executive Director)*
Mr. Guo Jun Yu *(Non-executive Director)*
Mr. Zhou Mai *(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
21 March 2007

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 2006 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 2006.

To the point of view of the Supervisory Committee, the resolutions passed in all board meetings for the year 2006 had been made with a view to protecting the Company's interests. No insider dealings, or anything which was prejudicial to the interests of the Company, or loss of Company's assets was acknowledged. The auditors' reports issued by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company are true and objective. The Company's financial statements have accurately reflected the Company's financial position.

The Supervisory Committee is satisfied with the achievement and progress of the Company in 2006 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
21 March 2007

Report of Audit Committee

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

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

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

Summary of the work done by the Audit Committee in 2006 is as follows:

1) Reviewed the financial reports for the year ended 31 December 2005, half year ended 30 June 2006, and the quarterly reports ended 31 March 2006 and 30 September 2006, respectively;

2) Reviewed the efficiency of the internal control, and proposed the establishment of internal control / internal audit team;

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

4) Reviewed and approved the audit fees for 2006;

5) Reviewed relevant connected transactions.

The Audit Committee meeting held on 21 March 2007 has reviewed the Company's 2006 consolidated financial statements together with the Company's external auditors, including a review of the accounting principles and practice principles adopted by the Group. Based on the results of the review and after discussion with the management and the auditors, the Audit Committee agreed upon the accounting treatments adopted by the Company, and has made efforts to ensure that the financial information disclosed in the consolidated financial statements comply with relevant requirements of the applicable accounting principles and Listing Rules. Accordingly, the Audit Committee proposes that Board approves the announcement of the consolidated financial statements for the year ended 31 December 2006.

The Audit Committee has held regular meetings, at least four times annually, and in 2006, 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
21 March 2007

Report of Remuneration Committee

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

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

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

Summary of the work done by the Remuneration Committee in 2006 is as follows:

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

2) Review the remuneration scheme for the Directors and Supervisors for the year 2005;

3) Lay down the remuneration scheme for the Directors and Supervisors for 2006.

The Remuneration Committee has held two meetings in 2006, with attendance reaching 100%.

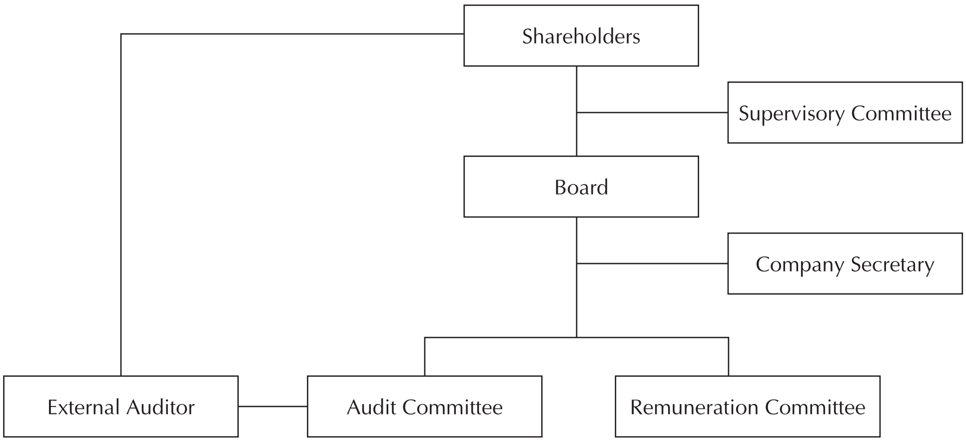
REMUNERATION COMMITTEE

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

Shanghai, the PRC
21 March 2007

CORPORATE GOVERNANCE PRACTICE

The Company's corporate governance structure is as follows:



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

a) Articles of Association;

b) Principles of the Audit Committee;

c) Principles of the Remuneration Committee;

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

e) Daily management documents of the Company.

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

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

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

– Board meetings held during 2006 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, another two Executive Directors, five Non-executive Directors and three Independent Non-executive Directors. Except for Mr. Zhou Mai who joined the Board as Non-executive Directors on 16 June 2006, all the other Directors were in place in the whole year of 2006.

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

Directors	Time of first appointment	Date of recent re-appointment	Term
Executive Directors			
Wang Hai Bo *(Chairman)*	11 November 1996	24 June 2005	Three years
Su Yong	20 January 2002	24 June 2005	Three years
Zhao Da Jun	20 January 2002	24 June 2005	Three years
Non-executive Directors			
Jiang Guo Xing	11 November 1996	24 June 2005	Three years
Fang Jing	20 January 2002	24 June 2005	Three years
Lou Yi	25 June 2004	24 June 2005	Resigned on 6 June 2006
Zhou Jie	24 June 2005	24 June 2005	Three years
Guo Jun Yu	24 June 2005	24 June 2005	Three years
Zhou Mai	6 June 2006	6 June 2006	Two years
Independent Non-executive Directors			
Pan Fei	20 June 2003	24 June 2005	Three years
Cheng Lin	10 July 2002	24 June 2005	Three years
Weng De Zhang	20 June 2003	24 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 not more than three years, and can be re-nominated for re-election in the AGM.

Powers of the Board

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

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

2) implementing the resolutions of the general meetings;

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

4) formulating annual financial budgets of the Company;

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

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

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

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

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

10) setting the basic management policies of the Company;

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

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

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

Chairman and the general manager

Although 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 2006. 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		
Jiang Guo Xing	4/5	80%
Fang Jing	5/5	100%
Zhou Jie	5/5	100%
Guo Jun Yu	1/5	20%
Zhou Mai (appointed on 16 June 2006)	1/2	50%
Independent Non-executive Directors		
Pan Fei	5/5	100%
Cheng Lin	5/5	100%
Weng De Zhang	5/5	100%

Note: Attendance by proxy on behalf of the Directors is deemed to be attendance. Occasions for the Directors delegating a proxy for attendance are, Mr. Zhou Jie 2 times, Mr. Zhou Mai once, Mr. Cheng Lin once, and Mr. Wong De Zhang once.

The table below sets out the time and major agenda of Board meetings in 2006:

Time of Board meetings	Major agenda
1 January 2006 (temporary)	considered the resolution of bank loan and pledge granted by "Technology and Education Promoting Shanghai" project;
22 March 2006	reviewed 2005 annual report; considered the resignation and appointment of Directors and Supervisors; considered 2006 remuneration plans for Directors and Supervisors; determined the time for AGM.
10 May 2006	reviewed the first quarterly report of 2006
9 August 2006	reviewed the report of 2006 interim results;
8 November 2006	reviewed consider the report of third quarterly results of 2006; considered the resolution of establishment of Taizhou Pharmaceutical

Note: 1. Unless specifically stated, all refer to regular Board meetings.

2. In addition to the above mentioned Board meetings, two other resolutions were signed on dispatched document.

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 2006.

Directors' and Supervisors' service contracts

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

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

None of the Directors, chief executive or Supervisors or their spouse or children of age under 18 has been authorized by the Company or any subsidiary any right to purchase shares or debentures in the Company or any other body corporate, or have exercised such rights within 2006.

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
Yang Xiao Hua *(chairman)*	24 June 2005	24 June 2005	3 years
Guo Yi Cheng *(shareholders' representative)*	24 June 2005	24 June 2005	Resigned on 16 June 2006
Zhu Zu Shun *(shareholders' representative)*	16 June 2006	16 June 2006	2 years
Wei Dong Zhi *(Independent Supervisor)*	20 January 2001	24 June 2005	3 years
Ji Nuo *(Independent Supervisor)*	20 June 2003	24 June 2005	3 years
Zhang Man Juan *(staff representative)*	24 June 2005	24 June 2005	3 years

In 2006, 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 2006.

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

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial reporting, internal 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 2006, with an attendance rate of 100%. Senior management and/or external auditors were invited to attend each meeting. In 2006, 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 2006 quarterly, interim and the audited 2005 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 matters.

Attendance of meetings of the Audit Committee in 2006:

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. Weng De Zhang 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 31 December 2006, 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 CPAs Limited Company as the Group's international and statutory auditors respectively in 2006. The Company has not changed the auditors in the past three years. Hereunder are the fees on the audit services and related expenses for the year and the previous year:

Auditor	Audit fees in 2006	Audit fees in 2005
PricewaterhouseCoopers	RMB700,000	Hk$700,000
PricewaterhouseCoopers Zhong Tian CPAs Limited Company	RMB300,000	Hk$270,000

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

REMUNERATION COMMITTEE

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

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

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

The Remuneration Committee held two meetings during 2006, the attendance of which was as follows:

Remuneration Committee	**Attendance/ Times of meetings**	**Rate**
Cheng Lin *(chairman)*	2/2	100%
Pan Fei	2/2	100%
Weng De Zhang	2/2	100%
Zhou Jie	2/2	100%
Fang Jing	2/2	100%

Note: Mr. Zhou Jie has attended the meeting via tele-conference for one occasion.

Emoluments of Directors and senior managements for 2006 refer to note 13 to the Financial Statements.

Remuneration policy for Executive Directors

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

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

Basic salaries

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

Discretionary bonus

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

Options

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

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

Statutory benefits

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

Remuneration for Non-executive Directors

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

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

NOMINATION OF DIRECTORS

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

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

In 2006, Mr. Zhou Mai has been appointed as Director through the above procedure. As the Company adopts the procedure of nomination by the Board and voting in the general meeting, and has so far been operating satisfactorily, there is therefore no need for setting up a Nomination Committee. In 2006, 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)*
Jiang Guo Xing, Fang Jing, Zhou Jie *(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 2006, only one AGM was held by the Company, details of which are as follows:

Time	10 a.m., 16 June 2006
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Shareholders annual general meeting
Way of voting	Poll
Major issues	General matters of the AGM; Appointment of Directors and Supervisors; General mandate for the issue of 20% of the Shares.

Arrangements for the dates of the quarterly results, interim results and AGM in 2007 are as follows:

Items	**Proposed time**
Announcement of 2006 results	21 March 2007
Announcement of 2007 first quarterly results	Around 10 May 2007
AGM	8 June 2007
Announcement of 2007 interim results	Around 10 August 2007
Announcement of 2007 third quarterly results	Around 10 November 2007

By order of the Board

Wang Rui
Company Secretary

Shanghai, the PRC
21 March 2007

DIRECTORS

EXECUTIVE DIRECTORS

Wang Hai Bo, aged 46, 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 43, 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 36, 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

Jiang Guo Xing, aged 54, 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.

Fang Jing, aged 38, 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.

Zhou Jie, aged 39, is a deputy CEO of Shanghai Industrial Holdings Limited, a vice president of Shanghai Industrial Investment (Holdings) Co. Ltd., the chairman of Hangzhou Huqingyutang Pharmaceutical Co. Ltd., a director of Shanghai Industrial Pharmaceutical Investment Co. Ltd., Chia Tai Qingchunbao Pharmaceutical Co. Ltd., Shanghai Sunway Biotech Co. Ltd., The Wing Fat Printing Co. Ltd. and Shanghai Information Investment Inc., and the chairman of the supervisory committee of Bright Dairy and Food Co. Ltd. He graduated from Shanghai Jiaotong University with a master's degree in engineering management. Mr. Zhou previously held the positions of chairman and general manager of Shanghai S.I. Capital Co. Ltd., the deputy general manager of the investment banking head office of Shanghai Wanquo Holdings Ltd. (now Shenyin & Wanguo Securities Co., Ltd.). He has over 10 years' experience in investment banking and capital markets operation. He has been a non-executive Director since June 2005.

Guo Jun Yu, aged 33, 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.

Zhou Mai, aged 49, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pan Fei, aged 51, 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 44, 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 44, 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 44, 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.

Zhu Zu Shun, aged 39, graduated from Tianjin University of Finance and Economics with a Master's degree. He has many years' experience engaging in finance and audit. He used to be the deputy general manager of the Audit Division of China National Machinery Imp. & Exp. Corp and the general manager of the Audit Division of China General Technology (Group) Holding, Ltd. He is currently the general manager of China General Technology (Group) Pharmaceutics Holding, Ltd

Zhang Man Juan, aged 43, 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 42, 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 37, 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 42, 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 39, 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.

Yang Xiao Lin, aged 44, is a deputy general manager of the Company. He graduated from Chinese Academy of Social Sciences with an MBA degree. Mr. Yang has participated in and been in charge of several M&A projects for pharmaceutical companies. He has also been responsible for marketing and selling prescribed and OTC medicine in many sectors, and has obtained good results. He used to be a regional sales manager of GlaxoSmithKline, Marketing Director of Fosun Pharmaceutical Group, and General manager of Zhejiang Kanglaite Pharmaceutical Co., Ltd. He joined the Company in January 2006.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Wang Rui, aged 33, 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 8 June 2007 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 2006.

2. To consider and approve the report of the Supervisory Committee for the year ended 31 December 2006.

3. To consider and approve the audited accounts and the report of the auditor for the year ended 31 December 2006.

4. To consider and approve the profit distribution plan for the year ended 31 December 2006, and the final dividend distribution plan for the year ended 31 December 2006 (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 2007 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 2007 and to authorize the Board to implement such remuneration policies.

7. To approve the resignation of Mr. Zhou Mai from being a non-executive director. To consider and approve the appointment of Mr. Hao Hong Quan as a non-executive director, until the conclusion of the forthcoming annual general meeting around June 2008. His resume is set out in the appendix to this report. Details of the arrangements are as follows:

	Date of expiry	**Date of appointment**	**Date of expiry**
Zhou Mai (resign from non-executive director)	Upon the conclusion of this annual general meeting		
Hao Hong Quan (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

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. Jiang Guo Xing *(Non-executive Director)*
Ms. Fang Jing *(Non-executive Director)*
Mr. Zhou Jie *(Non-executive Director)*
Mr. Guo Jun Yu *(Non-executive Director)*
Mr. Zhou Mai *(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
21 March 2007

Notes:

(A) The register of holders of H Shares of the Company will be closed from Wednesday 9 May 2007 to Friday 8 June 2007 (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 8 May 2007 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, 19 May 2007.

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 2006 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:

Hao Hong Quan, aged 50, Senior International Business Specialist, graduated from Renmin University of China with a master's degree in investment analysis, is the Vice General Manager of Genertec Pharmaceutical Holding, Ltd. He worked previously as the Vice General Manager of JXPR Compressor Co. Ltd, chairing Vice General Manager of CNTIC Development Co. Ltd, chairing Vice General Manager of Genertec Industrial Co. Ltd, Vice General Manager of China National Technical Import & Export Corporation (CNTIC), and Vice General Manager of Assets Management Department of China General Technology (Group) Holding, Ltd (Genertec).

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

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

We have audited the consolidated financial statements of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 56 to 104, which comprise the consolidated and Company balance sheets as of 31 December 2006, and the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31 December 2006 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2007

Consolidated Income Statement

For the year ended 31 December 2006
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December 2006	2005
Turnover	4	**19,764**	20,117
Cost of sales		**(9,413)**	(12,093)
Gross profit		**10,351**	8,024
Other income	5	**3,422**	6,571
Research and development costs		**(15,570)**	(24,438)
Distribution and marketing costs		**(7,285)**	(5,678)
Administrative expenses		**(10,726)**	(12,417)
Other operating expenses		**(1,501)**	(3,819)
Operating loss	6	**(21,309)**	(31,757)
Finance costs	7	**(712)**	—
Share of results of an associate	20	**264**	(2,900)
Loss before income tax		**(21,757)**	(34,657)
Income tax (charge)/credit	10	**(273)**	4,301
Loss for the year		**(22,030)**	(30,356)
Attributable to:			
Shareholders of the Company		**(20,956)**	(29,085)
Minority interests		**(1,074)**	(1,271)
		(22,030)	(30,356)
Basic loss per share for loss attributable to the shareholders of the Company (RMB)	14	**(0.0295)**	(0.0410)

The notes on pages 61 to 104 are an integral part of these financial statements.

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

As of 31 December 2006
(All amounts are shown in RMB thousands unless otherwise stated)

		Group		Company	
		As of 31 December		As of 31 December	
	Notes	**2006**	2005	**2006**	2005
Non-current assets					
Leasehold land payments	15	**11,416**	8,864	**11,416**	8,864
Property, plant and equipment	16	**56,051**	51,565	**54,678**	49,661
Technical know-how	17	**2,294**	3,794	**762**	1,213
Deferred development costs	18	**6,894**	8,713	**6,894**	8,713
Investments in subsidiaries	19	**—**	—	**12,348**	15,250
Investment in an associate	20	**607**	55	**7,200**	7,200
Deferred income tax assets	21	**7,513**	7,786	**7,513**	7,786
		84,775	80,777	**100,811**	98,687
Current assets					
Inventories	22	**2,927**	1,963	**2,927**	1,963
Trade receivables	23	**7,362**	1,158	**7,362**	1,158
Other receivables, deposits and prepayments		**735**	1,285	**451**	1,005
Amounts due from related companies	24	**—**	1,000	**—**	1,000
Amount due from a shareholder	25	**—**	250	**—**	250
Amount due from a subsidiary	26	**—**	—	**975**	—
Available-for-sale investments	27	**38**	475	**38**	475
Term deposits in bank with maturities of three to twelve months	28	**5,000**	6,242	**5,000**	6,242
Cash and cash equivalents	28	**44,180**	49,755	**40,948**	46,458
		60,242	62,128	**57,701**	58,551
Total assets		**145,017**	142,905	**158,512**	157,238

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

As of 31 December 2006
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Group As of 31 December 2006	Group As of 31 December 2005	Company As of 31 December 2006	Company As of 31 December 2005
Non-current liabilities					
Borrowings	29	**20,000**	—	**20,000**	—
Loans from municipal government authorities	30	**11,000**	—	**11,000**	—
		31,000	—	**31,000**	—
Current liabilities					
Trade payables	31	**602**	2,144	**401**	1,930
Other payables and accruals		**7,634**	12,090	**7,272**	11,184
Deferred revenue	32	**2,434**	2,294	**1,640**	1,694
Loans from municipal government authorities	30	**1,650**	1,650	**1,650**	1,650
Amounts due to subsidiaries	33	**—**	—	**2,285**	3,207
Amount due to a shareholder	34	**—**	1,000	**—**	1,000
		12,320	19,178	**13,248**	20,665
Total liabilities		**43,320**	19,178	**44,248**	20,665
Capital and reserves attributable to shareholders of the Company					
Share capital	35	**71,000**	71,000	**71,000**	71,000
Reserves	36	**28,608**	49,564	**43,264**	65,573
		99,608	120,564	**114,264**	136,573
Minority interests		**2,089**	3,163	**—**	—
Total equity		**101,697**	123,727	**114,264**	136,573
Total equity and liabilities		**145,017**	142,905	**158,512**	157,238
Net current assets		**47,922**	42,950	**44,453**	37,886
Total assets less current liabilities		**132,697**	123,727	**145,264**	136,573

The notes on pages 61 to 104 are an integral part of these financial statements.

Wang Hai Bo
Director

Zhao Da Jun
Director

21 March 2007

Consolidated Cash Flow Statement

For the year ended 31 December 2006
(All amounts are shown in RMB thousands unless otherwise stated)

		Year ended 31 December	
	Notes	**2006**	2005
Operating activities			
Cash used in operations	37	**(21,009)**	(12,336)
Interest paid		**(676)**	—
Interest received		**286**	160
Net cash used in operating activities		**(21,399)**	(12,176)
Investing activities			
Purchase of property, plant and equipment		**(14,116)**	(7,592)
Payments for leasehold land		**(2,749)**	—
Additions in deferred development costs		**—**	(2,365)
Withdrawal of term deposits with maturities of three to twelve months		**1,242**	5,654
Interest received from term deposits with maturities of three to twelve months		**146**	230
Proceeds from disposal of property, plant and equipment		**47**	252
Proceeds from disposal of available-for-sale investments		**717**	1,779
Net cash used in investing activities		**(14,713)**	(2,042)
Financing activities			
Loans from municipal government authorities		**11,000**	—
Proceeds from bank borrowings		**20,000**	—
Net cash generated from financing activities		**31,000**	—
Net decrease in cash and cash equivalents		**(5,112)**	(14,218)
Cash and cash equivalents at beginning of the year		**49,755**	64,924
Exchange losses on cash and cash equivalents		**(463)**	(951)
Cash and cash equivalents at end of the year	28	**44,180**	49,755

The notes on pages 61 to 104 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006
(All amounts are shown in RMB thousands unless otherwise stated)

	Attributable to shareholders of the Company					Minority interests	Total equity
	Share capital *(Note 35)*	Capital accumulation reserve *(Note 36)*	Statutory common reserve fund *(Note 36)*	Statutory common welfare fund *(Note 36)*	Accumulated losses *(Note 36)*		
At 1 January 2005	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
Transfer *(note 36(c))*	—	—	1,120	(1,120)	—	—	—
Loss for the year 2006	—	—	—	—	(20,956)	(1,074)	(22,030)
At 31 December 2006	71,000	115,014	2,829	—	(89,235)	2,089	101,697

The notes on pages 61 to 104 are an integral part of these financial statements.

For the year ended 31 December 2006
(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 issue of these financial statements, 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 (together, the "Group") are principally engaged in research, development and selling of self-developed bio-pharmaceutical know-how, carrying out contracted research for customers, manufacturing and selling of 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

The following new standards, amendments to standards and interpretations are mandatory for financial year ended 31 December 2006.

IAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21 (Amendment)	Net Investment in a Foreign Operation
IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 (Amendment)	The Fair Value Option
IAS 39 & IFRS 4 (Amendments)	Financial Guarantee Contracts
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 1 & 6 (Amendments)	First-time Adoption of International Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
IFRIC-Int 4	Determining whether an Arrangement contains a Lease
IFRIC-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

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

IAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC-Int 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC-Int 8	Scope of IFRS 2
IFRIC-Int 9	Reassessment of Embedded Derivatives
IFRIC-Int 10	Interim Financial Reporting and Impairment
IFRIC-Int 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC-Int 12	Service Concession Agreements

(b) Basis of consolidation

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

In the Company's balance 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Investments in associates

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

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

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

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

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

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

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

(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 (if any).

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Property, plant and equipment *(continued)*

Gains and losses on disposals are determined by comparing the proceeds with the 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

(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 in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Trade and other receivables

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

(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.

(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 payment obligations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Investments

The Group's investments are either available-for-sale investments or held-to-maturity 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 those with 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 available-for-sale and held-to-maturity investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. There investments are initially recognised at fair value plus 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) Borrowings

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

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

(q) 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) 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.

(s) 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.

(t) 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Revenue recognition *(continued)*

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

Interest income	–	on a time-proportion basis using the effective interest method.
Dividend income	–	when the shareholder's right to receive payment is established.

(u) Dividend distribution

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

(v) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments 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 experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

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

(i) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

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

(iii) Deferred income tax assets

The Group's management determines the deferred income tax assets based on the enacted or substantially enacted tax rates and best knowledge of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilised. Management will revise the assumptions and profit projections by the balance sheet date.

(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.

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

(i) Research and development

The Group has recognised deferred development costs totalling 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, and wrote off the deferred development costs carried forward from prior years as well as those incurred during the year of 2005 for such project after reassessment of the applicable accounting policies.

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

4 TURNOVER

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

	2006	2005
Technology transfer revenue	**7,950**	9,500
Sales of diagnostic reagents and the provision of related ancillary services	**11,814**	10,617
	19,764	20,117

On 14 February 2005, the Company entered into a technology transfer contract with a pharmaceutical company in Shandong Province to transfer Recombinant Human Soluble TNFR 75 Fusion Protein for a total consideration of RMB17,000,000, of which an amount of RMB5,950,000 is recognised as revenue in 2006 (2005: RMB6,800,000) as the Company completed the respective milestones of the transfer as specified in the contract and economic benefits associated with the completion had flowed to the Company. Pursuant to the contract, the Company is entitled to receive royalty payments from the 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, it is estimated that the Company will not receive any significant royalty payments in the near future as the related production has not commenced.

On 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 is received and recognised as revenue in 2006 (2005: nil) as the Company completed the respective milestones of the transfer as specified in the contract and economic benefits associated with the completion had flowed to the Company. Pursuant to the contract, the Company is entitled to receive royalty payments from the Taiwanese pharmaceutical company equal to 6% of the future gross annual sales from the technology transferred. However, it is estimated that the Company will not receive any significant royalty payments in the near future as the related production has not commenced.

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 a total amount of RMB1,000,000 was recognised as revenue in 2005 as the Company completed the respective milestones of the transfer as specified in the contract and economic benefits associated with the completion had flowed to the Company. No further revenue is recognised in 2006. 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, it is estimated that the Company will not receive any significant royalty payments in the near future as the related production has not commenced.

On 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 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. No further revenue is reognised in 2006.

5 OTHER INCOME

	2006	2005
Amortisation of government grants and other non-refundable grants	**2,381**	5,735
Interest income	**432**	390
Realisation of previously unrecognised profit on technology transfer to an associate	**288**	288
Profit on disposal of available-for-sale investments	**280**	—
Others	**41**	158
	3,422	6,571

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

6 OPERATING LOSS

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

	2006	2005
Amortisation of leasehold land payments	**197**	106
Amortisation of deferred development costs (included in 'Cost of sales')	**1,819**	1,819
Amortisation of technical know-how (included in 'Research and development costs')	**1,341**	1,416
Amortisation of technical know-how (included in 'Administrative expenses')	**159**	176
	1,500	1,592
Auditors' remuneration	**933**	920
(Reversal of)/provision for impairment of receivables	**(526)**	665
Cost of inventories sold	**7,594**	10,274
Depreciation of property, plant and equipment	**4,634**	4,196
Less: amount capitalised in deferred development costs	**—**	(126)
	4,634	4,070
Loss on disposal of property, plant and equipment	**299**	2,891
Exchange losses on cash and cash equivalents (included in 'Other operating expenses')	**463**	951
Operating lease rentals in respect of land and buildings	**168**	113
Research and development costs *(note (a))*	**15,570**	24,438
- Charge during the year	**15,570**	15,261
- Written off deferred development costs carried forward from prior year *(note 3(b))*	**—**	9,177
(Profit)/loss on disposal of available-for-sale investments	**(280)**	64
Provision for impairment of inventories	**—**	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 8 below.

7 FINANCE COSTS

	2006	2005
Interest expense on bank borrowings wholly repayable within five years	**712**	—

8 EMPLOYEE BENEFIT EXPENSES

	2006	2005
Wages and salaries	**10,162**	10,519
Housing subsidies	**2,278**	1,958
Social security costs	**974**	892
Retirement benefit costs *(note 9)*	**1,035**	920
Employee benefit expenses including directors' and supervisors' emoluments	**14,449**	14,289
Less: amount capitalised in the deferred development costs	**—**	(488)
	14,449	13,801
The number of employees at the end of the year	**162**	144

9 RETIREMENT BENEFIT COSTS

The employees of the Group participate in a retirement benefit plan organised by the municipal government whereby the Group is required to make monthly contributions to the plan at a rate of 22.5% 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 RMB1,035,000 and RMB920,000 for the years ended 31 December 2006 and 31 December 2005, respectively.

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

10 INCOME TAX CHARGE/(CREDIT)

	2006	2005
Current income tax	—	—
Deferred tax charge/(credit) *(note 21)*	**273**	(4,301)
	273	(4,301)

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%.

As the subsidiaries are 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%.

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:

	2006	2005
Loss before income tax	**(21,757)**	(34,657)
Tax calculated at a tax rate of 15%	**(3,264)**	(5,199)
Effect of unrecognised tax losses of the Group	**3,276**	860
Utilisation of previously unrecognised tax losses of a subsidiary	—	(25)
Expenses not deductible for tax purpose	**261**	63
Tax charge/(credit)	**273**	(4,301)

A new PRC enterprise income tax law has been enacted subsequent to the year end, see note 42.

11 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 RMB22,309,000 and RMB23,833,000 for the years ended 31 December 2006 and 31 December 2005, respectively.

12 DIVIDENDS

At the meeting on 21 March 2007, the Board of Directors recommended not to distribute any dividends in respect of the year ended 31 December 2006.

At the shareholders' Annual General Meeting on 16 June 2006, it was resolved not to distribute any dividends in respect of the year ended 31 December 2005.

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND HIGHEST PAID INDIVIDUALS

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

	2006	2005
Basic salaries and allowances	**1,194**	1,134
Bonus	**110**	55
Retirement benefit and social security costs	**110**	96
Fees	**100**	80
	1,514	1,365

RMB180,000 fees were paid and payable to the independent non-executive directors for the year (2005: RMB120,000).

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

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

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

	2006	2005
Executive director, Wang Hai Bo	**587**	538
Executive director, Su Yong	**417**	378
Executive director, Zhao Da Jun	**410**	369
Supervisor, Wei Dong Zhi	**50**	40
Supervisor, Ji Nuo	**50**	40
Independent non-executive director, Cheng Lin	**60**	40
Independent non-executive director, Pan Fei	**60**	40
Independent non-executive director, Weng De Zhang	**60**	40
	1,694	1,485

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

	2006	2005
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:

	2006	2005
Basic salaries and allowances	**623**	565
Bonus	**100**	28
Retirement benefit and social security costs	**68**	59
	791	652

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

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

(iv) During the years ended 31 December 2006 and 2005, no directors or any of the five highest paid individuals of the Company waived any emoluments and no emoluments have been paid or are payable by the Group to the directors or any of the five highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

14 LOSS PER SHARE

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

	2006	2005
Loss attributable to shareholders of the Company	**(20,956)**	(29,085)
Weighted average number of ordinary shares in issue (thousands)	**710,000**	710,000
Basic loss per share (RMB)	**(0.0295)**	(0.0410)

Diluted loss per share has not been calculated for the years ended 31 December 2006 and 2005 as there were no dilutive potential ordinary shares during the years then ended.

15 LEASEHOLD LAND PAYMENTS – GROUP AND COMPANY

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

	2006	2005
Net book value at 1 January	**8,864**	8,970
Additions	**2,749**	—
Amortisation	**(197)**	(106)
Net book value at 31 December	**11,416**	8,864

The original lease terms of the land use rights of the Group held in the PRC are 50 years. The remaining lease periods of the land use rights of the Group in the PRC are 45 and 49 years.

As of 31 December 2006, bank borrowings and certain loans from municipal government authorities were secured on leasehold land of the Company with a net book value of RMB4,708,000 (2005: nil) (notes 29 and 30(b)).

For the year ended 31 December 2006
(All amounts are shown in RMB thousands unless otherwise stated)

16 PROPERTY, PLANT AND EQUIPMENT

(i) The property, plant and equipment of the Group for the years ended 31 December 2006 and 31 December 2005 are as follows:

	Construction in progress	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Total
Cost					
At 1 January 2005	—	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
Additions	7,525	565	830	546	9,466
Transfers	(19,898)	19,898	—	—	—
Disposals	(45)	(238)	(355)	—	(638)
At 31 December 2006	1,950	67,704	3,021	2,063	74,738
Accumulated depreciation					
At 1 January 2005	—	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
Charge for the year	—	4,026	360	248	4,634
Disposals	—	(150)	(142)	—	(292)
At 31 December 2006	—	16,396	1,193	1,098	18,687
Net book value					
At 31 December 2006	1,950	51,308	1,828	965	56,051
At 31 December 2005	14,368	34,959	1,571	667	51,565

16 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(ii) The property, plant and equipment of the Company for the years ended 31 December 2006 and 31 December 2005 are as follows:

	Construction in progress	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Total
Cost					
At 1 January 2005	—	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
Additions	7,525	563	814	546	9,448
Transfers	(19,898)	19,898	—	—	—
Disposals	(45)	(229)	(299)	—	(573)
At 31 December 2006	1,950	65,172	2,682	1,693	71,497
Accumulated depreciation					
At 1 January 2005	—	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
Charge for the year	—	3,640	304	177	4,121
Disposals	—	(143)	(120)	—	(263)
At 31 December 2006	—	14,999	1,004	816	16,819
Net book value					
At 31 December 2006	1,950	50,173	1,678	877	54,678
At 31 December 2005	14,368	33,438	1,347	508	49,661

(iii) As of 31 December 2006, bank borrowings and certain loans from municipal government authorities were secured on plant and machinery of the Company with a net book value of RMB22,895,000 (2005: nil) (notes 29 and 30(b)).

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

17 TECHNICAL KNOW-HOW

	Group		Company	
	2006	2005	**2006**	2005
Cost				
At beginning of the year	**8,942**	12,442	**3,688**	7,188
Disposals	**—**	(3,500)	**—**	(3,500)
At end of the year	**8,942**	8,942	**3,688**	3,688
Accumulated amortisation				
At beginning of the year	**5,148**	5,056	**2,475**	3,433
Charge for the year	**1,500**	1,592	**451**	542
Disposals	**—**	(1,500)	**—**	(1,500)
At end of the year	**6,648**	5,148	**2,926**	2,475
Impairment charge				
At beginning of the year	**—**	1,000	**—**	1,000
Disposals	**—**	(1,000)	**—**	(1,000)
At end of the year	**—**	—	**—**	—
Net book value				
At end of the year	**2,294**	3,794	**762**	1,213

18 DEFERRED DEVELOPMENT COSTS

	Group		Company	
	2006	2005	**2006**	2005
Cost				
At beginning of the year	**14,365**	21,051	**14,365**	20,754
Capitalisation of costs	**—**	2,491	**—**	2,491
Write-off *(note 3(b))*	**—**	(9,177)	**—**	(8,880)
At end of the year	**14,365**	14,365	**14,365**	14,365
Accumulated amortisation				
At beginning of the year	**5,652**	3,833	**5,652**	3,833
Charge for the year	**1,819**	1,819	**1,819**	1,819
At end of the year	**7,471**	5,652	**7,471**	5,652
Net book value				
At end of the year	**6,894**	8,713	**6,894**	8,713

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

19 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2006	2005
Unlisted shares, at cost		
At beginning and end of the year	**15,250**	15,250
Impairment charge		
At beginning of the year	**—**	—
Additions	**2,902**	—
At end of the year	**2,902**	—
Net book value		
At end of the year	**12,348**	15,250

As of 31 December 2006, 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. (上海摩根淡國際生命科學中心有限公司)	PRC 31 August 1998	RMB8,000,000	68.75	Research and development ("R&D") of specialised bio-pharmaceutical projects and provision of related services in the PRC
Shanghai Ba Dian Medicine Co., Ltd. (上海靶點葯物有限公司)	PRC 4 June 2003	RMB15,000,000	65	Development of biological and medical technology, the provision of related R&D services and the sale of intermediary products in the PRC

20 INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2006	2005	**2006**	2005
Unlisted shares, at cost				
At beginning and end of the year	**7,200**	7,200	**7,200**	7,200
Unrealised profit on technology transferred to associate				
At beginning of the year	**(624)**	(912)		
Realisation *(note (a))*	**288**	288		
At end of the year	**(336)**	(624)		
Share of results of an associate				
At beginning of the year	**(6,521)**	(3,621)		
Additions	**264**	(2,900)		
At end of the year	**(6,257)**	(6,521)		
	607	55		

(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).

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

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

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

20 INVESTMENT IN AN ASSOCIATE *(continued)*

The assets, liabilities, revenues and net profit/(loss) of the associate are as below:

	Assets	**Liabilities**	**Revenues**	**Net profit/(loss)**
2006	6,049	2,121	69	1,100
2005	10,727	7,899	548	(12,084)

21 DEFERRED INCOME TAX ASSETS – GROUP AND COMPANY

	2006	2005
Deferred income tax assets (on net basis)		
At beginning of the year	**7,786**	3,485
(Charged)/credited to the income statement for the year *(note 10)*	**(273)**	4,301
At end of the year	**7,513**	7,786

A potential deferred income tax asset, which represents mainly temporary difference arising from tax losses carried forward, has not been recognised in the consolidated financial statements as, in the opinion of the directors, it is uncertain that such asset will be realised in the foreseeable future. The tax losses not recognised by the Group amounted to RMB52,013,000 and RMB30,173,000 as of 31 December 2006 and 31 December 2005. 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.

21 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 2005	(899)	(597)	(1,496)
(Charged)/credited to the income statement	(170)	597	427
At 31 December 2005	(1,069)	—	(1,069)
Credited to the income statement	159	—	159
At 31 December 2006	(910)	—	(910)

Deferred income tax assets (on gross basis)

	Provisions	Tax losses	Total
At 1 January 2005	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
Charged to the income statement	(432)	—	(432)
At 31 December 2006	589	7,834	8,423

A new PRC enterprise income tax law has been enacted subsequent to the year end, see note 42.

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

22 INVENTORIES – GROUP AND COMPANY

	2006	2005
Raw materials	**2,009**	1,044
Production supplies and consumables	**199**	207
Contracted work-in-progress	**57**	48
Finished goods	**662**	664
	2,927	1,963

23 TRADE RECEIVABLES – GROUP AND COMPANY

	2006	2005
Accounts receivables *(note(a))*	**1,420**	1,158
Notes receivable *(note(b))*	**5,942**	—
	7,362	1,158

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

	2006	2005
Current to 30 days	**491**	43
31 days to 60 days	**373**	506
61 days to 90 days	**224**	384
Over 90 days but less than one year	**468**	236
Over one year	**1,534**	2,905
	3,090	4,074
Less: provision for impairment	**(1,670)**	(2,916)
	1,420	1,158

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 TRADE RECEIVABLES – GROUP AND COMPANY *(continued)*

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

(c) Trade receivables are unsecured and interest-free.

24 AMOUNTS DUE FROM RELATED COMPANIES – GROUP AND COMPANY

The balance as of 31 December 2005 represented 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.

25 AMOUNT DUE FROM A SHAREHOLDER – GROUP AND COMPANY

The balance as of 31 December 2005 represented an amount due from SPCL, a shareholder of the Company and is unsecured, interest free and repayable on demand.

26 AMOUNT DUE FROM A SUBSIDARY – COMPANY

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

27 AVAILABLE-FOR-SALE INVESTMENTS – GROUP AND COMPANY

	2006	2005
Listed funds in the PRC	**—**	475
Listed shares in the PRC	**38**	—
Available-for-sale investments at fair values	**38**	475
Current	**38**	475

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

28 CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
Cash and bank balances	**47,129**	54,632	**43,897**	51,335
Deposits in other financial institutions *(note (a))*	**2,051**	1,365	**2,051**	1,365
Less: term deposits in bank with maturities of three to twelve months	**(5,000)**	(6,242)	**(5,000)**	(6,242)
	44,180	49,755	**40,948**	46,458
Cash and bank balances denominated in				
- RMB	**41,928**	12,057	**38,696**	8,760
- HKD	**2,252**	6,639	**2,252**	6,639
- USD	**—**	31,059	**—**	31,059
	44,180	49,755	**40,948**	46,458

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

(b) The effective interest rate on cash placed with banks and deposits in other financial institutions ranged from 0.72%-1.62% (2005: 0.72%-2.55%) per annum.

29 BORROWINGS – GROUP AND COMPANY

	2006	2005
Long-term bank borrowings	**20,000**	—

Bank borrowings are due for repayment on 10 July 2009, and bear interest at the rate of 6.03% annually. The borrowings were denominated in RMB and an amount of RMB18,000,000 is guaranteed by a third party company. Such guarantee was secured by the leasehold land, plant and machinery of the Company (notes 15 and 16).

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

	Carrying amount		**Fair value**	
	2006	2005	**2006**	2005
Long-term bank borrowings	**20,000**	—	**19,876**	—

Fair value is based on cash flows discounted using a rate based on the market rate published by People's Bank of China (as of 31 December 2006: 6.30%).

30 LOANS FROM MUNICIPAL GOVERNMENT AUTHORITIES – GROUP AND COMPANY

The loans from municipal government authorities are repayable as follows:

	2006	2005
Within one year *(note (a))*	**1,650**	1,650
Over one year *(note (b))*	**11,000**	—
	12,650	1,650

(a) 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 2006 are repayable on demand.

30 LOANS FROM MUNICIPAL GOVERNMENT AUTHORITIES – GROUP AND COMPANY *(continued)*

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

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

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

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

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

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

31 TRADE PAYABLES

Details of the aging analysis are as follows:

	Group		Company	
	2006	2005	**2006**	2005
Current to 30 days	**96**	1,867	**95**	1,667
31 days to 60 days	**9**	64	**9**	64
61 days to 90 days	**—**	3	**—**	3
Over 90 days but less than one year	**141**	1	**140**	1
Over one year	**356**	209	**157**	195
	602	2,144	**401**	1,930

Trade payables are unsecured and interest-free.

32 DEFERRED REVENUE

	Group		Company	
	2006	2005	**2006**	2005
Government grants *(note (a))*	**2,284**	2,294	**1,640**	1,694
Deferred contracted revenue *(note (b))*	**150**	—	**—**	—
	2,434	2,294	**1,640**	1,694

(a) Government grants

	Group		Company	
	2006	2005	**2006**	2005
At beginning of the year	**2,294**	4,249	**1,694**	2,577
Additions	**2,371**	3,780	**1,828**	3,200
Transfer to the income statement	**(2,381)**	(5,735)	**(1,882)**	(4,083)
At end of the year	**2,284**	2,294	**1,640**	1,694

(b) In 2006, Ba Dian, a subsidiary of the Company entered into a service contract with a pharmaceutical company to perform drug efficacy study for a total consideration of RMB200,000. Deferred contract revenue of the Group amounted to RMB150,000 as of 31 December 2006 represent that portion of the contract revenue received from such service but related to future performance.

33 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.

34 AMOUNT DUE TO A SHAREHOLDER – GROUP AND COMPANY

The balance as of 31 December 2005 represented 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, and is unsecured, interest free and repayable on demand.

35 SHARE CAPITAL – GROUP AND COMPANY

	Number of shares *(thousands)*	Share capital
At 31 December 2006 and 31 December 2005	710,000	71,000

All authorised shares are issued and fully paid.

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

No option shares have been granted since 23 June 2002.

36 RESERVES

(i) The reserves of the Group attributable to shareholders of the Company for the years ended 31 December 2006 and 31 December 2005 are as follows:

	Capital accumulation reserve (note a)	Statutory common reserve fund (note b)	Statutory common welfare fund (note c)	Accumulated losses (note d)	Total
At 1 January 2005	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
Transfer	—	1,120	(1,120)	—	—
Loss for the year 2006	—	—	—	(20,956)	(20,956)
At 31 December 2006	115,014	2,829	—	(89,235)	28,608

(ii) The reserves of the Company for the years ended 31 December 2006 and 31 December 2005 are as follows:

	Capital accumulation reserve (note a)	Statutory common reserve fund (note b)	Statutory common welfare fund (note c)	Accumulated losses (note d)	Total
At 1 January 2005	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
Transfer	—	1,120	(1,120)	—	—
Loss for the year 2006	—	—	—	(22,309)	(22,309)
At 31 December 2006	115,014	2,829	—	(74,579)	43,264

36 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 certain PRC regulation published in 2006, each of the companies registered in the PRC under the PRC Company Law is required to cease the appropriation of the statutory common welfare fund upon 1 January 2006. The balance brought forward from previous years shall be transferred to statutory common reserve fund.

(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 2006 (2005: nil).

37 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss before income tax to cash used in operations

	2006	2005
Loss before income tax	**(21,757)**	(34,657)
Adjustments for:		
Amortisation of leasehold land payments	**197**	106
Depreciation of property, plant and equipment	**4,634**	4,070
Amortisation of government grants and other non-refundable grants received	**(2,381)**	(5,735)
Amortisation of technical know-how	**1,500**	1,592
Amortisation of deferred development costs	**1,819**	1,819
(Reversal of)/provision for impairment of receivables	**(526)**	665
Provision for impairment of inventories	**—**	87
(Profit)/loss on disposal of available-for-sale investments	**(280)**	64
Loss on disposal of property, plant and equipment	**299**	2,891
Loss on write-off of deferred development costs	**—**	9,177
Finance costs	**712**	—
Interest income	**(432)**	(390)
Share of results of an associate	**(264)**	2,900
Realisation of previously unrecognised profit on technology transfer to an associate	**(288)**	(288)
Exchange losses on cash and cash equivalents	**463**	951
Changes in working capital:		
- trade and other receivables and amounts due from a shareholder and related companies	**(3,877)**	(77)
- inventories	**(964)**	1,502
- trade and other payables and amount due to a shareholder	**(2,385)**	(293)
- deferred revenue	**2,521**	3,280
Cash used in operations	**(21,009)**	(12,336)

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

38 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.

The related party balances as of 31 December 2006 and 31 December 2005 are disclosed in notes 24, 25, 26, 33 and 34.

39 SEGMENTAL INFORMATION

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

	Year ended 31 December 2006			Year ended 31 December 2005		
	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	**7,950**	**11,814**	**19,764**	9,500	10,617	20,117
Segment loss	**(9,695)**	**(697)**	**(10,392)**	(11,880)	(5,229)	(17,109)
Unallocated income			**1,305**			836
Unallocated costs			**(12,670)**			(18,384)
Loss before income tax			**(21,757)**			(34,657)
Income tax (charge)/credit			**(273)**			4,301
Loss for the year			**(22,030)**			(30,356)

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.

39 SEGMENTAL INFORMATION *(continued)*

	Research and development activities	Sales of diagnostic reagents and the provision of related ancillary services	Unallocated activities	Total
31 December 2006				
Segment assets	36,012	36,873	72,132	145,017
Segment liabilities	(34,834)	(1,529)	(6,957)	(43,320)
Net	1,178	35,344	65,175	101,697
Other segment items				
Capital expenditure	7,286	1,338	3,591	12,215
Depreciation	2,549	1,345	740	4,634
Amortisation	1,341	1,965	210	3,516
Reversal of impairment charge	—	(526)	—	(526)
Other non-cash expenses	76	223	—	299
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

Note: Unallocated activities mainly represented the holding of cash and bank deposits and available-for-sale 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)

40 COMMITMENTS

(a) Operating lease commitments

As of 31 December 2006, the Group had future aggregate minimum lease payments due under non-cancellable operating leases in respect of buildings as follows:

	2006	2005
Within one year	**149**	168
In the second to fifth years inclusive	**—**	74
	149	242

(b) Capital commitments

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

	2006	2005
Plant and machinery	**886**	3,817

41 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, available-for-sales investments, trade payables and other payables and accruals 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.

(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 cash placed with banks and other financial institutions (note 28), bank borrowings (note 29) and loans from municipal government authorities (note 30).

41 FINANCIAL RISK MANAGEMENT *(continued)*

(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 RMB against US dollar and HK dollar have 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

42 SUBSEQUENT EVENTS

In March 2007, the Group established a wholly-owned subsidiary, Taizhou Fudan Zhangjiang Pharmaceutical Company Limited ("Taizhou Pharmaceutical"), by injection of RMB 20,000,000 cash and certain technologies. The Group is currently in discussion with other third party companies on the possibility of their injection of capital into Taizhou Pharmaceutical.

On 16 March 2007, a new PRC enterprise income tax law has been enacted which will be applicable to the Group. The new tax law which will be effective on 1 January 2008 reduces the standard income tax rate from 33% to 25% and changes the previous preferential tax treatments. Management is following up the new tax law and will only be able to assess its impact to the Group when the detailed implementation guideline becomes available.

43 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 21 March 2007.