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 company incorporated in the People's Republic of China with limited liability)
(Stock code: 1349)

Annual Report 2015

* *For identification purpose only*

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Ke Ying
Shen Bo
Yu Xiao Yang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Zhou Zhong Hui
Lam Yiu Kin
Chen Kai Xian (Resigned on 29 May 2015)
Xu Qing (Appointed on 29 May 2015)

SUPERVISORS

Zhou Xi (*Chairman*, appointed on 29 May 2015)
Zhao Wen Bin (*Chairman*, resigned on 29 May 2015)
Li Ning Jian
Zhang Man Juan
Guo Yi Cheng
Xu Qing (Resigned on 29 May 2015)
Wang Luo Chun (Appointed on 22 February 2016)

LEGAL REPRESENTATIVE

Wang Hai Bo

COMPANY SECRETARY

Xue Yan, HKICPA/FCCA/CICPA/CIA

AUTHORISED REPRESENTATIVES

Zhao Da Jun
Xue Yan, HKICPA/FCCA/CICPA/CIA

AUDIT COMMITTEE

Lam Yiu Kin *(Chairman)*
Shen Bo
Chen Kai Xian (Resigned on 29 May 2015)
Xu Qing (Appointed on 29 May 2015)

REMUNERATION COMMITTEE

Zhou Zhong Hui *(Chairman)*
Lam Yiu Kin
Chen Kai Xian (Resigned on 29 May 2015)
Xu Qing (Appointed on 29 May 2015)

NOMINATION COMMITTEE

Wang Hai Bo *(Chairman)*
Zhou Zhong Hui
Chen Kai Xian (Resigned on 29 May 2015)
Xu Qing (Appointed on 29 May 2015)

INTERNATIONAL AND STATUTORY AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Zhong Tian LLP

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
Bank of China, Zhangjiang Sub-branch
Bank of Nanjing, Shanghai Branch
Bank of Nanjing, Taizhou Branch
China Merchants Bank, Tianshan Sub-branch

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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AUTHORISED REPRESENTATIVE TO ACCEPT SERVICE OF PROCESS AND NOTICES

ONC Lawyers
19/F, Three Exchange Square,
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LISTING INFORMATION

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The Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 1349

WEBSITE

www.fd-zj.com

Five Years Financial Data Highlights

RESULTS

	Year ended 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**579,463**	470,900	415,925	232,527	133,890
Operating profit	**153,056**	129,960	108,360	63,866	42,489
Finance costs	**(7,106)**	(1,861)	(9,414)	(6,166)	(4,862)
Profit before income tax	**145,950**	128,099	98,946	57,700	37,627
Income tax expense	**(18,903)**	(17,605)	(15,405)	(5,264)	(5,255)
Profit for the year	**127,047**	110,494	83,541	52,436	32,372
Profit attributable to:					
Shareholders of the Company	**127,723**	118,258	87,218	53,159	30,826
Non-controlling interests	**(676)**	(7,764)	(3,677)	(723)	1,546
Total comprehensive income for the year	**127,047**	110,494	83,541	52,446	32,362
Total comprehensive income attributable to:					
Shareholders of the Company	**127,723**	118,258	87,218	53,166	30,819
Non-controlling interests	**(676)**	(7,764)	(3,677)	(720)	1,543
EBITDA	**182,070**	155,748	124,212	74,874	49,313
Basic and diluted earnings per share for profit attributable to the shareholders of the Company	**RMB 0.1384**	RMB 0.1281	RMB 0.1009	RMB 0.0749	RMB 0.0434

ASSETS AND LIABILITIES

	As at 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,020,265**	824,481	749,216	537,296	358,881
Total liabilities	**(254,425)**	(148,062)	(183,291)	(277,183)	(157,814)
	765,840	676,419	565,925	260,113	201,067
Capital and reserves attributable to shareholders of the Company	**732,630**	650,975	532,717	223,228	170,062
Non-controlling interests	**33,210**	25,444	33,208	36,885	31,005
	765,840	676,419	565,925	260,113	201,067

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company"), I present the annual report of the Company together with its subsidiaries (collectively as the "Group") for the year ended 31 December 2015 for consideration by the shareholders.

DEVELOPMENT CONCEPTS AND OBJECTIVE

With the ultimate goal to stay as an innovator and a leader in the bio-pharmaceutical industry, the Group has committed to exploring unmet needs and deficiencies of clinical and patients treatment as well as developing novel and more effective treatments/medicines, so as to realize our mission that "The More We Explore, the Healthier Human Beings Will Be".

RESEARCH STRATEGY, REVIEW AND PROSPECTS

During the year under review, our research and development ("R&D") platforms, namely, genetic engineering, photodynamic-tech and nanotech, has laid solid foundation for our drug development direction. The Group has committed to developing new indications to tackle selected drugs and developing new medicines and innovative treatments to tackle selected diseases. In addition, our diagnostics business unit has been further strengthened to define a clear development direction by resources integration.

During the year under review, with an overall consideration of research resources, risks and cycles, the Group classified the R&D projects according to its affiliated platforms under the original research strategy. Besides, the following management classifications were also applied:

- **The projects with important breakthrough in clinical treatment**, such as the developments of a photodynamic drug for the treatment of CIN, a photodynamic drug to improve the effectiveness of the treatment of cholangiocarcinoma, a photodynamic drug to decrease the recurrence rate of bladder cancer and a synthetic platelet analog to treat bleeding caused by low platelet hemostatic which has vast clinical significance in China due to the lack of component blood transfusion in clinical practices. This kind of projects has definite positions scientific theory as well as clinical application. In addition, on the technical level, we have accumulated mature experiences these years.

- **The projects for exploratory purpose**, such as the development of AD drug under the instruction of a new theory named Secretasome, the exploratory research on Jagged antibody which interacted between Notch signaling pathway and Hippo signaling pathway for the treatment of liver cancer and the development of a new antibody cross-linking drug (ADC). This kind of projects needs to be further explored due to their uncertainties in the areas of science or technology although they are of great importance in clinical treatment.

- **The projects for commercialization purpose**, such as those high-end drugs which broke through technical hurdles including the international registration of Doxorubicin Hydrochloride Liposome, the development of nanoparticle Albumin-bound Paclitaxel, etc. In addition, this kind of projects also include the R&D of drugs which broke through patent limitation such as new generic drugs for the indication of biliary cirrhosis; the development of bio-similar drugs such as monoclonal antibody against VEGF, anti-sclerostin mab (抗硬化蛋白抗體) and long-acting anti-PCSK9 Mab and the manufacture of solid high-end drugs. The criteria for choosing these projects were based on the consideration of expanding the production scale and making contribution to the sales and profit of the Group in short or mid terms.

The classification of our R&D projects embodies the concept of the Group "stand on solid ground and look up at the starry sky". The innovative research of drugs faces great challenges, but we believe that the suitable R&D strategy will lead the Group moving toward a virtuous stage of development. In the fields that we have adequate scientific theory and technology, we will keep exploring and developing drugs to meet clinical needs so as to realize the value of the Group. On the other hand, we shall not stand on the position without the support of scientific theory or technical skills. We are willing to cooperate with outstanding science teams to find out scientific evidence so as to explore the treatments which are lack of now. Meanwhile, we shall also pay attention to the international development of the drugs with major breakthrough. We would research and develop generic drugs or similar drugs to improve effectiveness of treatment for countrymen, especially the drugs which break through technical barriers or patent limitation.

During the year under review, we strengthened the development and improvement of our technology. At present, we have made progress on antibody technology, cross-linking technology and nano-drug technology. On the other hand, we increased the investment in the research of solid high-end drugs so that we have the ability to improve and optimize those drugs which have been already launched to the market and provide us with more methods to solve the deficiency of clinical treatment. We are looking forward to exploring and developing more drugs with the support of these technologies in the near future.

As a R&D company which emphasizes on the research from needs of clinical treatment, our choices face challenges but have extraordinary significance as well. We will try our best to avoid involving in trouble of homoplasy as a result of lack of scientific evidence and thus selecting projects from the drugs which were well developed overseas.

GENETIC TECHNICAL PLATFORM

We will pay constant attention to the ability on building genetic technical platform. We realized that gene technology in terms of signaling pathways control, suppress or strengthen the protein activity, will become the core technology in the area of new drugs development, especially when the research bases on the most fundamental and specific causes and molecular mechanism of diseases. Our antibody technology could have helped us copy antibody drugs almost the same as the originator drugs successfully. Severe consistency of drug development we are pursuing can help drugs launch for sale earlier and can transfer to the capability of antibody-drugs development. Our crosslinking technology of antibody has been used in the development of new drug CD30-MMAE successfully, which would push this kind of key protein drugs entering into clinical research in China. To keep the balance of development and meet the requirements of therapy in China, the Group will continue in making effort on pushing the projects which have entered into clinical trial. We will try to realize the commercialization of protein drugs as early as we can.

The progresses of the projects on genetic technical platform are summarized as follows:

The clinical trial approval for high bio-activity recombinant human TNF receptor (重組親和力TNF受體) for the treatment of arthritis has been obtained in May 2014, and the project was in the stage of clinical trial phase I. The drug is mainly used to treat self-immunological diseases, such as arthritis. The size of potential market is enormous. The Group holds independent intellectual property right ("IPR") of the drug and has applied for PCT patent. It will be one of the key R&D projects of the Group.

Phase I clinical trial of PTH (重組人甲狀旁腺激素)for the treatment of osteoporosis has been completed. The project will delay the submission of clinical trial phase II application and performs self-inspection of clinical trial phase I result due to the update of related rules and regulations during the year. At the same time, indication of osteoarthritis was also in the research.

The antibody-drug conjugate drugs have shown obvious advantages on tumor treatment in clinical trials, which is much better than the effect of the conventional antibody plus chemotherapy drugs. In order to follow the development trend in bio-pharmaceutical area, CD30-MMAE for the treatment of tumors has entered into pre-clinical study. The project was elected in the 4^{th} list of the 12th five-year Key New Drugs Creation for Key Science and Technology project and obtained national financial aid.

Avastin for the treatment of tumor has completed pre-clinical study. The registration of clinical trial according to the relevant regulations of bio-similar drugs is under progress.

Anti-sclerostin mab (骨硬化蛋白抗體) for the treatment of osteoporosis has entered into pre-clinical study.

PCSK9 for the treatment of hypercholesterolemia has entered into pre-clinical study.

PHOTODYNAMIC TECHNICAL PLATFORM

The Group has been expanding the drugs development based on photodynamic technical platform. Photodynamic drugs will become the most important product pipeline of the Group. We will continue to exert its feature of "one drug, several indications" and becoming a new scalpel for clinical treatment so that according to the treatment principle of photodynamic drugs, we will design special therapy for some precancerous lesions which cannot be treated or intervened for the moment. The Group is commencing further research on molecular mechanism and their mode of action in order to discover new photodynamic compound to improve the efficacy and overcome the defects. The Group is cooperating with other institutions to develop new laser and new LED photodynamic equipment. We have planned to apply for the international registrations for the launched drugs, which will lay a foundation for the commercialization development of the Group. We believe that photodynamic drugs will become the first choice for the treatment of certain diseases based on the initial set up of photodynamic software and hardware repository and the Group's R&D experiences on photodynamic drugs over a long period of time. We have the confidence to become the global leader in photodynamic drugs development area and are willing to make contributions to make photodynamic drugs be used more widely.

The progresses of the projects on photodynamic technical platform are summarized as follows:

As the first commercialization project of the Group, the therapy of Aminolevulinic Acid Hydrochloride combined with photodynamic technology obtained positive market response after it was launched for sale. To expand the application to new indications of this drug is one of the key R&D projects of the Group.

Several years after it was launched to the market, ALA (艾拉®), the first photodynamic drug for the treatment of condyloma acuminate in the world, has become the preferred choice in this area. The therapy of ALA combined with photodynamic technology initiated by the Company was recorded in the 8th edition of Dermatovenercology (published in March 2013) and relevant clinical treatment guidance.

Aminolevulinic Acid Hydrochloride used for the treatment of CIN infected by HPV has entered into clinical trial phase II. Currently the cause of the disease is known but there is no effective intervention or therapy for it. Our product will be the first therapy of precancerous lesion. New indications of adjuvant therapy with Aminolevulinic Acid Hydrochloride for brain gliomas and treatment for basal cell carcinoma are entering into pre-clinical study. Aminolevulinic Acid Hydrochloride used for the treatment of moderate and severe acne has submitted clinical trial application, and will start clinical trial phase I after obtained the approval.

Hemoporfin (海姆泊芬), the first photodynamic drug for the treatment of port wine stain in the world, is a new drug with new drug target, new compound and new indication. The Group has obtained the New Drug Certificate issued by the State Food and Drug Administration and completed all the trial production and preparation work for sale. During the year under review, the GMP verification is in progress and it is required to further obtain the drug production approval.

The R&D projects of Aminolevulinic Acid Hydrochloride used for the treatment of CIN infected by HPV and clinical trial phase IV of Hemoporfin after launching for sale were elected as " R&D project of key variety of photodynamic creative drugs " of the 12th five-year Key New Drugs Creation for Key Science and Technology project and obtained national financial aid.

Duteroporphyrin (多 替 泊 芬) for the treatment of tumors has entered into the clinical trial phase II. At the same time, the Company is evaluating the feasibility of another indication according to the feedback from patients and R&D result in earlier study.

NANO TECHNICAL PLATFORM

The Group will further develop new drugs based on the platform of preparation technology of nano drugs including intravenous liposome nano drugs, oral Granular drug to improve bioavailability and slow-release drugs for skin health management. The Group firmly believes that new agents will improve the drug's efficacy and reduce the associated risk, furthermore they will speed up the ability and the progress of commercialization for the Group.

The progresses of the projects on nano technical platform are summarized as follows:

LIBOd® (里葆多®) for the treatment of tumors, was launched to market in August 2009. The drug is a new doxorubicin formula which adopts the advanced stealth liposomal encapsulation technology and has passive targeting characteristics. It is a new generation of replacement for anthracycline drugs. In oncology, it has the advantages of enhancing efficacy and remarkably lowering the effects of cardiac toxicity, myelosuppression and hair-loss. LIBOd® is used for the treatment of AIDS-relating Kaposi's sarcoma, breast cancer and ovarian cancer. Registration for the drug is being carried out in the United States ("U.S.") taking into account the tremendous market capacity of breast cancer. During the year under review, the enrolling and bioequivalence trial for the certain number of patients have been completed and the application documents are under preparation. After the bioequivalence trial, the Company will be required to further obtain the verification of good quality management system of our production plant by U.S. Food and Drug Administration ("FDA") before the drug can be launched to the market.

Vincristine sulphate liposome (LVCR) for the treatment of malignant tumors has completed clinical trial phase I. The Group cautiously decided to transfer this project to a third party pharmaceutical company based on the consideration of its future prospect, production conditions and payback period, etc. During the year under review, the transfer agreement is in the execution stage.

Nanoparticle Albumin-bound Paclitaxel (紫杉醇白蛋白納米粒) for the treatment of tumors, has entered into pre-clinical study. During the year under review, the reform of existing production line for this project has been completed. The preparation of clinical samples have been under progress.

DIAGNOSIS TECHNOLOGY PLATFORM

During the year under review, the Group keeps increasing investments on diagnosis technique and reagent research, and planned to push the "rapid, quantitative detection system" as starting point of entering into clinical medical market to develop the molecular diagnostic technique based on the technology of adapter body as technical reserves. This platform will focus on the specialized market of grassroots medical, obstetrics and neonatal unit, which can become the significant component of the industry layout of the Group in the area of diagnosis technology.

In order to further strengthen our diagnostics business unit to define a clear development direction and integrate existing diagnosis platform, the Company purchased 90% of the total share capital of Shanghai Youni Bio-tech Co. Ltd. ("Youni Bio-tech"). During the year under review, Shanghai Tracing Bio-technology Co., Ltd. ("Tracing Bio-technology"), a subsidiary of the Group completed the absorption merger of Youni Bio-tech in order to integrate resources, reduce costs and increase efficiency. The merger will better realize the original plan which is to make full use of the new technology in the fields with low barriers and low cost such as food safety inspection and then to introduce it into clinical application field with low risk when it is mature at the appropriate time.

In addition, as a platform operating independently, the R&D direction of diagnosis technology platform is focus on market demands and returns on investment. With fierce competition in diagnosis technology industry, the Group will continue to develop types of diagnostic reagents of clinical medicine and food safety inspection products and expand application scope of related products and technology gradually.

In a word, we are continuing to explore and hope our efforts can provide useful help for the treatment of the patients and be of value to investors. Although we will face significant risks and challenges, we still believe our R&D strategy and result will lead the Company to sustainable development for medium and long term.

By the end of the year 2015, the major projects under R&D of the Group are summarized as follows:

Technical platform	Project name	Indications	Progress
Genetic engineering	Recombinant tissue type plasminogen activator (r-tPA)	Heart infarction	Technology transferred; the transferee has obtained the letter of approval for drug registration
	Recombinant human lymphotoxin α-derivatives (LT)	Tumor	Clinical trial phase II completed; stopped moving forward; discuss new plan
	Recombinant human tumor necrosis recipient Fc fusion protein (Etanercept)	Arthritis	Domestic and overseas rights transferred respectively
	rhTNFR(m):Fc (High bio-activity recombinant human TNF receptor 2-Fc fusion protein mutant (高親和力重組人腫瘤壞死因數受體突變體-Fc融合蛋白)	Arthritis	Clinical trial phase I
	PTH (重組人甲狀旁腺激素)	Osteoporosis	Clinical trial phase I completed
	CD30-MMAE	Tumor	Pre-clinical study
	Anti-sclerostin mab (骨硬化蛋白抗體)	Osteoporosis	Pre-clinical study
	PCSK9	Hypercholesterolemia	Pre-clinical study
	Avastin	Tumor	Pre-clinical study completed, clinical trial registration in progress
Photodynamic technique	Hemoporfin (海姆泊芬)	Port wine stain	GMP certification in progress, plan to launch for sale in 2016
	Deuteroporphyrin (多替泊芬)	Tumors	Clinical trial phase II
	Aminolevulinic acid	Cervical diseases infected by HPV	Clinical trial phase II
	Aminolevulinic acid	Acne	Clinical trial application has been submitted
	Aminolevulinic acid	Brain gliomas	Pre-clinical study
	Aminolevulinic acid	Basal cell carcinoma	Pre-clinical study
Nano technique	Doxorubicin liposome (鹽酸多柔比星脂質體)	Tumors	Registered in USA, Bioequivalence trial completed, application documents in preparation
	Vincristine sulphate liposome (LVCR)	Tumors	Clinical trial phase I completed, transferred to a third party pharmaceutical company
	Nanoparticle Albumin-bound Paclitaxel (紫杉醇白蛋白納米粒)	Tumors	Pre-clinical study
	Xenon liposome	Stroke	Pre-clinical study, not up to expectations, terminated

Technical platform	Project name	Indications	Progress
Others	Antenatal screening diagnostic reagent	Down's syndrome, etc.	Under research
	Food safety inspection reagents	antibiotics inspection, etc.	Under research

In February 2011, the Company entered into the strategic cooperation agreement with Shanghai Pharmaceuticals Holding Co., Ltd. ("Shanghai Pharmaceuticals") for the cooperation on innovative pharmaceutical R&D. Both parties will jointly share the risks of, and cooperate on, the research, development and commercialization of the relevant potential pharmaceuticals owned by the Group which are currently at various research stages. This agreement was renewed in 2013 and the term of the renewed agreement is three years ending 31 December 2016. During the year 2015, the agreement was enforced as stipulated and R&D work was performed in order. The transfer of Vincristine sulphate liposome was decided based on the agreement with Shanghai Pharmaceuticals.

COMMERCIALIZATION STRATEGY, REVIEW AND PROSPECTS

During the year under review, the Group has committed to implementing the commercialization strategy of launching self-developed innovative drugs to the market. Meanwhile, we will expand generic drugs group gradually to fill the capacity in view of factual operation needs.

To make full use of the advantages accumulated in skin management field these years, the Group began to involve itself in the industry of skin beauty chain clinics during the year under review and made investment to establish Derma Clinic Investment Co., Ltd.*(德美診聯醫療投資管理有限公司)("Derma Clinic") in August 2015. We think Derma Clinic can enrich the Group's industrial chain layout and expand the core technology and sole products to end customers, which is in line with the development regularity of industry chain in the future. In addition, the operation of Derma Clinic will refine the commercialization concept of photodynamic products and transfer the Group to a resource integrator in photodynamic technology market from a products and technology provider which can raise our brand and capital value obviously. On the other hand, in terms of photodynamic drugs of the Company, Derma Clinic would change the operation mode of selling drugs only by hospitals in the result of increase distribution channels and creating opportunities for setting up O2O integrated operation mode in the future.

During the year under review, product sales revenue of the Group increased by 25% compared with that of last year. ALA (艾拉®) which is indicated for the treatment of dermal HPV infectious disease and proliferative disease and LIBOd® which is indicated for the treatment of tumor are two major products of the Group, together contributed 97% of the sales generated by the Group.

ALA (艾拉®) launched to the market in 2008. As the first photodynamic drug in China, ALA can selectively spread and accumulate in condyloma acuminatum cells, and kill them together with specific wavelength light and energy, which does not result in adverse effects on surrounding normal tissues at the same time. Due to the feature of this kind of therapy, ALA also has effects on the treatment of subclinical infection and latent infection. Compared with traditional therapy, the therapy of ALA combined with photodynamic technology, filled in the blanks in the treatment of urethral orifice condyloma acuminate. In addition, our therapy has the advantages such as better tolerance of patient, higher safety, non-scar, lower adverse reaction and much lower recurrence rate comparing with previous average level. ALA has become one of the largest consumed skin-sure drugs now. During the year under review, sales revenue of ALA in 2015 increased by 27% compared with that of last year due to that we adjusted sales strategy according to market trends.

LIBOd® (里葆多®) for the treatment of tumors, was launched for sale in August 2009 and it has brought favorable market response and reputation. It becomes the only Doxorubicin Hydrochloride Liposome Injection that successfully won the bid for becoming an admitted product for insured critical illness in Zhejiang Province, which has a positive meaning for increasing market share and sales volume. In order to increase the market promotion and sales of LIBOd®, the Company signed the "Sole Agency Agreement" with NT Pharma (Jiangsu) Co., Ltd. ("NT Pharma") in February 2011 and granted it the exclusive distribution rights of LIBOd®. The agreement expired by the end of February in 2015 and the Company entered into a new agency agreement with NT Pharma in March 2015. As compared with last year, revenue from sale of LIBOd® increased by 21% in 2015. It is still expected to make big contribution to the sales revenue of the Group in future.

FuMeiDa (the proposed brand name of Hemoporfin), the first photodynamic drug for the treatment of Port Wine Stain, is a new drug with new target, new compound and new indication. The Group is working on GMP verification and plan to launch for sale in 2016. We have designed a new sales mode for FuMeiDa, with the integration of treatment and sales, which includes the Company's Wechat subscription, chain of clinics of the Group, designated hospitals and direct distribution systems provided by pharmaceutical companies. It is estimated to be launched to market in the second half of 2016.

For the past many years, as the first product group, diagnostic reagents in clinical treatment contribute stable sales revenue to the Group. With the new products launched to the market and intensive competitions in diagnostic technology industry, the advantages of this product group became weaker and weaker and there are few good reserve projects. In order to further strengthen diagnostics business unit and integrate in existing vitro diagnostic reagents platform, the Group invested to set up tracing Bio-technology jointly with a third party investor in 2012 and the new company covers all sectors including R&D, production and sales so that this platform can be operated as an independent operation entity. In addition, during the year under review, the Group completed a series of jobs on restructuring and integration of this platform. We believe we can gradually use the advantages accumulated in this area for many years to improve the competitiveness of existing products and develop more and more new products. During the year under review, revenue from sale of diagnostic reagents increased by 337% compared with that of last year.

During the year under review, the Group continues to regard market academic promotion as our primary sales method. More than 18,000 dermatologists have joined photodynamic technology We-chat communication platform which integrated with academic exchange, clinical case sharing, standard practice video, Q&A between doctors and patients, etc. In addition, we plan to take advantage of these doctor resources on the platform to try to develop a new sale mode to solve some frequent problems in current marketing environment and some frequent difficulties for patients to go to hospital. We believe this kind of investment will reflect positive significance for products promotion, brand and the Company recognition as well.

During the year under review, Derma Clinic has been negotiating for site selection in Beijing, Shenzhen, Zhengzhou and Wuhan, etc. Now two clinics have completed relevant registration procedures and one of them has been open for public. We planned to set up more than ten clinics in 2016.

During the year under review, all the product lines for existing products on sale of the Group passed GMP Certification of China Food and Drug Administration. Our objective is to set up the product lines which can meet international standard so that our products could be sold worldwide. The management has considered to apply for the certification of U.S. FDA for those two product lines launched in Shanghai and Taizhou. In the future, the timetable will be made according to specific commercialization projects.

The subsidiary of the Company, Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd ("Taizhou Pharmaceutical") has constructed two production lines for the material and injection of Hemoporfin. To make the two production lines at full capacity before new self-developed drugs obtaining production approval, the Group has chosen several generic drugs which can be produced with Hemoporfin on the same production line and planned to submit the application of registration. During the year under review, the work of technology research of these generic drugs has been completed and their registration applications are planned to be submitted gradually after the sale of Hemoporfin. More investments on production lines will be made in Taizhou in the next few years so as to make Taizhou Pharmaceutical become the centralized production base of the Group.

The Group has successfully accomplished the transformation from purely R&D to equally stress on both R&D and commercialization with a complete system featuring organic combination of R&D, product manufacturing and marketing. The Group is moving toward a virtuous stage of development.

By the end of the year 2015, the commercialized projects of the Group are summarized as follows:

Technical platform	Project name	Indications	Launching time
Photodynamic technique	ALA	Condyloma acuminate	2008
	FuMeiDa	Port wine stain	Estimated in 2016
Nano technique	LIBOd®	Tumors	2009
Diagnosis and Inspection	Antenatal screening diagnostic reagent, analysis software and equipment including Beixi, Beiyou	Down's syndrome	Launched already
	Several food safety inspection projects	food safety inspection	Launched already

INTELLECTUAL PROPERTY RIGHTS

The Group has been actively protecting its intellectual property rights on its innovative medicines and research achievements. During the year under review, the Group applied for 2 invention patents. By the end of the year 2015, the Group has cumulatively applied for 65 invention patents, and has been granted 41 invention patents.

GRANTS AND AWARDS

The Group has always been improving its ability of new drugs development in light of the industrial policies of China. During the year under review, the Group obtained the following grants and awards from governments at all levels for a number of R&D and commercialization projects:

Key New Drugs Creation "Targeting Anti-tumor Innovative Drugs Incubation Base Construction" obtained further financial aid of National Special Grant for Key Science and Technology Project amounting to RMB 5,827,000 in total. An amount of RMB 475,000 has been received during the year under review. As at 31 December 2015, the Company has received all the grants. The project has also obtained the matching grant from Shanghai government amounting to RMB 11,654,000 in total. During the year under review, the Company has received RMB 3,160,000. As at 31 December 2015, the Company has received RMB 11,477,200 accumulatively.

Key New Drugs Creation "R&D of Key Variety of Photodynamic Creative Drugs" obtained financial aid of the 12th five-year National Special Grant for Key Science and Technology Project amounting to RMB 11,160,900 in total. During the year under review, the Company has received RMB 4,592,600. As at 31 December 2015, the Company has received RMB 9,155,100 accumulatively.

As the lead unit of Key New Drugs Creation "Core Technology Buildup and Product Development of Antibody Conjugate Drugs", the Company obtained financial aid of the 12th five-year National Special Grant for Key Science and Technology Project amounting to RMB 6,130,000 in total. During the year under review, the Company has received RMB 2,201,500. As at 31 December 2015, the Company has received RMB 4,637,400 accumulatively. During the year under review, the Company has also received the matching grant from Zhangjiang Hi-tech Park amounting to RMB 3,709,900.

Pursuant to "Management measures to support industry in Shanghai Zhangjiang Hi-Tech Park" issued by Shanghai Pudong New Area management committee, The Company has three R&D projects supported by the government which can obtain 80% reimbursement of the interest expenses covering three loans amounting RMB 120,000,000 in total. During the year under review, the Company has received interest reimbursement of the loan relating to one project amounted to RMB 1,149,000.

ALA was certified as national strategic innovative product in national key new product plan of the Ministry of Science and Technology in 2014. The competition covered all kinds of industries and three projects in Shanghai were selected in 2014. ALA is one of them.

Doxorubicin Hydrochloride Liposome Injection (LIBOd®) has been certified as "Top 100 of Shanghai Hi-tech Achievement Transfer Projects in 2013".

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
18 March 2016

Management Discussion and Analysis

FINANCIAL REVIEW

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

REVENUE

The Group's consolidated revenue for the year 2015 amounted to approximately RMB 579,463,000, comparing to RMB 470,900,000 for the year 2014, representing an increase of 23%.

The total revenue for the year 2015 mainly came from the sale of medical products, revenue recognised from exclusive distribution rights and the revenue from technology transfer. The source of total revenue for the year 2015 was the same as that for the year of 2014.

Revenue from sale of medical products

The major products of the Group are ALA (鹽酸氨酮戊酸，ALA) from photodynamic platform, LIBOd® (鹽酸多柔比星脂質體，Doxorubicin liposome) from Nano-drug platform and various kinds of diagnostic reagents from diagnosis technology platform. The Company has signed the sole agency agreement with NT Pharma and granted it the exclusive distribution rights of LIBOd®. The work of sales and distribution of LIBOd® nationwide is outsourced to the sales team of NT Pharma and that of the rest of the products is taken by the sales team of the Group.

Revenue of the Group from the sale of medical products for the year 2015 was RMB 576,647,000 (or 99.51% of the total revenue), increased by 25% from that of last year which was RMB 460,455,000. The major products of the Group, ALA and LIBOd®, have contributed 40% and 57% to the total revenue of the Group, respectively. Sales revenue generated from ALA and LIBOd® have increased by 27% and 21% comparing to that for the year 2014, respectively.

Revenue from exclusive distribution rights

The Company signed the sole agency agreement with NT Pharma in February 2011 and granted it the exclusive distribution rights of LIBOd®, and such agreement expired in February 2015. The total consideration was RMB 20,000,000, of which, an amount of RMB 833,000 (or 0.14% of the total revenue) was recognised as revenue in 2015. The amount recognised for the year 2014 was RMB 5,000,000. The Company entered into a new sole agency agreement with NT Pharma during 2015, without any consideration for the exclusive distribution rights.

Revenue from technology transfer

Revenue from technology transfer for the year 2015 was RMB 900,000. It is the staged revenue recognised form the technology transfer by the Company to a third party pharmaceutical company in 2014. Revenue from technology transfer for the year 2014 was RMB 5,445,000.

COST OF SALES

For the year 2015, cost of sales of the Group was RMB 50,014,000, while the corresponding figure for 2014 was RMB 36,821,000. The ratio of cost of sales to revenue from sale of products raised to 9% from the level of 8% for last year, and remains generally stable. The increase of the ratio was mainly due to the increase in sales of diagnostic reagents with low gross profit margin in 2015. The Group has been consistent in strict cost control. Maintaining the current product structure, we will try our best to maintain the current gross profit margin.

OPERATING PROFIT

For the year 2015, operating profit of the Group was RMB 153,056,000 comparing to the operating profit of RMB 129,960,000 for the year 2014, representing an increase of 18%.

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

- Other income

  Other income for the year 2015 was RMB 72,920,000, compared with RMB 81,770,000 for the year 2014, representing a decrease of 11%, The decrease was mainly because pursuant to the innovative pharmaceuticals research and development strategic cooperation agreement signed with Shanghai Pharmaceuticals, the projects have not accomplished the agreed stages at the end of year 2015 so that one-off income relating to the reimbursement of preliminary R&D expenses decreased. The total income recognised for R&D cooperation with Shanghai Pharmaceuticals decreased to RMB 19,508,000 in the year 2015 (2014: RMB 40,029,000). On the other hand, the government grant income recorded in the year 2015 increased to RMB 37,915,000 (2014: RMB 33,173,000).

- R&D costs

  The Group adopts a conservative and prudent capitalization policy for R&D projects. Only the expenses incurred on those projects which were evaluated to be feasible in technology with clear objective and controllable risks can be capitalized. Therefore, most of R&D costs were recognised as expenses as incurred. R&D costs for the year 2015 were RMB 110,116,000, compared with RMB 105,071,000 for the year 2014, representing an increase of 5%. The ratio of R&D costs to revenue is 19% (2014: 22%).

- Distribution and marketing costs

  Distribution and marketing costs for the year 2015 were RMB 309,038,000, compared with RMB 258,025,000 of the year 2014, representing an increase of 20%. The distribution and marketing costs grew in line with the increase in revenue for sale of products. The growth rate of the distribution and marketing costs is near to that of the revenue generated from the sales of medical products. The ratio of distribution and marketing costs to revenue for sale of products decreased to 54% from 56% for last year, and remains generally stable.

- Administrative expenses

  Administrative expenses for the year 2015 were RMB 28,876,000, compared with RMB 22,650,000 for the year 2014, representing an increase of 27%. It is mainly due to the increases of operating costs such as payroll and the administrative expenses of new subsidiaries of the Company which were included in the scope of consolidation of the Group during the year under review.

- Other operating expenses

  Other operating expenses for the year 2015 were RMB 1,283,000, compared with RMB 143,000 for the year 2014, representing an increase of 797%. It mainly includes the losses on disposals of fixed assets.

FINANCE COSTS

For the year 2015, finance costs of the Group were RMB 7,106,000, compared with RMB 1,861,000 for the year 2014, representing an increase of 282%. It is mainly due to the increase of borrowings of the Group for the purpose of adding liquidity to ensure the operations of subsidiaries and support the existing R&D projects to be developed on schedule.

TAX

Effective from 1 January 2008, the Company and its subsidiaries are required to determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") as approved by the National People's Congress on 16 March 2007. The Company was recognised as a high-tech enterprise, and the applicable tax rate of the Company is 15% in 2015. The applicable tax rates of the subsidiaries are 25% in 2015.

As at 31 December 2015, the applicable tax rate and tax policy of the Group did not change.

PROFIT FOR THE YEAR

The profit of the Group for the year 2015 was RMB127,047,000, comparing with that of RMB110,494,000 for the year 2014, representing an increase of 15%.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company of RMB 127,723,000 was recorded in the consolidated financial statements for the year 2015, compared with that of RMB 118,258,000 for the year 2014, representing an increase of 8%.

The profit of the Company of RMB 135,889,000 was recorded in the financial statements of the Company for the year 2015, compared with that of RMB 108,408,000 for the year 2014, representing an increase of 25%.

SIGNIFICANT INVESTMENTS

The Board approved that the Company established a subsidiary named Derma Clinic with independent third parties, including Zhong He Hou De Investment Management Co., Ltd.* (中和厚德投資管理有限公司) ("Zhong He Hou De") in Shanghai, China on 12 December 2014. The Company received the approval and completed the registration and filing procedures with the relevant authorities regarding the establishment of Derma Clinic on 4 August 2015. Derma Clinic will make investment to establish and operate nationwide skin beauty chain clinics, by taking advantage of the brand effect and market share of the Company in the skin beauty field of medical market. Details of this transaction were set out in the announcement issued by the Company on 12 December 2014 and 4 August 2015.

Saved as disclosed above, the Group had no other significant investment during the year ended 31 December 2015.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Board approved that the Company entered into the share transfer agreement with the three original shareholders of Shanghai Youni Bio-tech Co. Ltd. ("Youni Bio-tech"), on 12 December 2014, representing 90% of the total registered share capital of Youni Bio-tech at a cash consideration of RMB22,500,000 (equivalent to approximately HK$ 28,125,000) in aggregate. Youni Bio-tech is a biotechnology company that is principally engaged in the R&D, manufacture and sales of reagents for food safety detection. Details of this transaction were set out in the announcement issued by the Company on 12 December 2014. The share transfer was completed in January 2015. The financial results of Youni Bio-tech have been consolidated into the accounts of the Group during the year under review and no significant indication of impairment exists. In addition, during the year under review, Tracing Bio-technology completed the absorption merger of Youni Bio-tech and the filing procedures with the relevant authorities were completed in the year.

Saved as disclosed above, the Group had no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2015.

CONTINGENT LIABILITIES

As at 31 December 2015, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

As at 31 December 2015, there was no charge on the Group's assets.

BANKING FACILITIES

As at 31 December 2015, the outstanding amount of the loans of the Group was RMB 125,000,000, which includes:

On 16 February 2015, an unsecured bank borrowing of RMB 70,000,000 was obtained by the Company, with an annual interest rate at the market borrowing rate published by People's Bank of China. The borrowing is due for repayment on 16 February 2016.

On 18 August 2015, a secured bank borrowing of RMB 30,000,000 was obtained by the Company, with an annual interest rate of 4.85%. The borrowing is due for repayment on 18 August 2016.

On 16 March 2015, a bank borrowing of RMB 25,000,000 was obtained by Taizhou Pharmaceutical, a subsidiary of the Group, with an annual interest rate of 6.1525%. The borrowing is guaranteed by the Company, and is due for repayment on 15 March 2016.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Company has the plan to construct an additional building in the existing base so as to expand the space for small-scale trial production. The application has been submitted for approval.

Saved as disclosed above, the Group had no other material capital expenditure plan for the moment.

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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), proceeds from the share placement, grants from the municipal government authorities and commercial loans.

As at 31 December 2015, the Group had cash and cash equivalents of approximately RMB 445,997,000.

Being consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank borrowings and loans from government authorities) less cash and cash equivalents. Total capital is calculated as "total equity", as shown in the consolidated balance sheet, plus net debt. As at 31 December 2015 and 2014, cash and cash equivalents is much more than total balance of bank loans of the Group, therefore, the gearing ratio is not applicable.

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

FOREIGN EXCHANGE EXPOSURE

The Group mainly operates in the domestic market. Except for the Hong Kong dollar proceeds from the placement of shares, the operating results and the financial position of the Group will not be substantially affected by the movement in exchange rates.

EMPLOYEES AND SALARIES

As at 31 December 2015, the Group had a total of 552 employees, as compared to 498 employees as at 31 December 2014. Staff costs including directors' remuneration for the year 2015 were RMB 83,534,000, compared with RMB 70,510,000 for the year 2014. The salaries and benefits of employees provided by 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 by the Group.

Details of the remuneration policies are set out in the "Remuneration Committee" section of the "Corporate Governance Report".

USE OF PROCEEDS

On 4 February 2013, the Company completed a placing of 142,000,000 H shares with a par value of RMB 0.10 each at a price of HKD 1.70. The amount of net proceeds from the placing was approximately HKD 233,909,000 (equivalent to approximately RMB 185,575,000) (after deducting all applicable costs and expenses, including commissions, legal fees and levies). The net proceeds were applied in the planned projects described in the circular of the Company dated 14 May 2012 and the announcement of the Company dated 16 January 2013.

Particulars of the proceeds from the placing were used as follows:

	Budget RMB'000	Total amount that has been utilised as of 31 December 2015 RMB'000
R&D projects		
– the clinical study project regarding using ALA for the treatment of cervical intraepithelial neoplasia	**20,000**	9,295
– the pre-clinical study and clinical study project regarding using ALA for the treatment of brain glioma	**10,000**	3,051
– the pre-clinical and clinical study project of paclitaxel albumin nanoparticles	**20,000**	16,246
– the pre-clinical and clinical study project of CD30-MMAE	**30,000**	23,478
To repay the debts of the Company	**20,000**	20,000
For the working capital of the Company	**85,575**	85,575
Total	**185,575**	157,645

OTHER MATTERS

Proposed Issue of A Shares

All resolutions proposed at the extraordinary general meeting of the Company, the class meeting of holders of H Shares of the Company and the class meeting of holders of Domestic Shares of the Company all held on 11 August 2015 were duly passed, which included the resolutions of proposed issue of not more than 27,000,000 A Shares of the Company with a nominal value of RMB0.10 each ("Issue of A Shares"), the proposal on authorization to the Board to deal with matters relating to the Issue of A Shares and the proposed amendments to the articles of association of the Company.

The Issue of A Shares will be subject to, among other things, the approvals by the China Securities Regulatory Committee and Shanghai Stock Exchange. Details of the proposed Issue of A Shares are set out in the Company's announcement dated 29 May 2015 and circular dated 26 June 2015.

Report of the Directors

The Board is pleased to present the directors' report for the year 2015 and the audited consolidated financial statements of the Group for the year ended 31 December 2015.

ACTIVITIES REVIEW

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

On R&D, the Group is committed to developing four R&D platforms, include genetic technical platform, photodynamic platform, nano technical platform and diagnosis technology platform. As at the end of the report period, the Group had about 12 major R&D projects and more than 20 corresponding proposed indications or specifications. Given that R&D on innovative drugs faces significant risks and challenges, the Group adopts more prudent and conservative capitalized policy on R&D expenses and will try to make the medium and long-term plans of R&D in view of actual financial position.

On commercialization, the major products of the Company are ALA on photodynamic technical platform, LIBOd® on nano technical platform and all kinds of diagnostic reagents on diagnosis technology platform. FuMeiDa which is indicated for the treatment of Port Wine Stain planned to launch to the market in 2016.

In addition, the Company established a subsidiary named Derma Clinic with third parties during the year under review. It will make investment to establish and operate nationwide skin beauty chain clinics, buy taking advantage of the brand effect and market share of the Company in the skin beauty field of medical market.

The Group's revenue for the year 2015 was generated from the sale of medical products and the revenue from exclusive distribution rights.

The Group only operates a single business segment in 2014 and 2015 and hence no segment information is presented.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the percentages of the major customers and suppliers in the Group's total sales and purchases are as follows:

	Percentage in the Group's total	
	Sales	**Purchases**
Largest customer	56.51%	
Total of the five largest customers	76.11%	
Largest supplier		16.02%
Total of the five largest suppliers		37.66%

The Company signed the "Sole Agency Agreement" with NT Pharma and granted it the exclusive distribution rights of LIBOd®. So NT Pharma is the biggest customer of LIBOd® and the Group.

Shanghai Pharmaceuticals, a substantial shareholder of the Company, is a key customer of the Company. The connected transactions with Shanghai Pharmaceuticals have been approved at the general meeting of the Company. Save for this, 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.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks faced by the Group are innovative drugs R&D risks, innovative drugs marketing risks, the risks caused by single sales channel of LIBOd® and price risks of drugs, etc. The principal uncertainty is regulatory policy.

RESULTS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of comprehensive income and related explanatory notes to the consolidated financial statements.

An analysis on the Company's annual results of 2015 using financial key performance indicators are set out in the section headed "Management Discussion and Analysis" of the annual report.

DIVIDENDS

Relevant resolution was passed at a meeting of the Board held on 18 March 2016 to propose to distribute a final dividend of RMB 0.03 per share (tax inclusive) for the year ended 31 December 2015, totalling approximately RMB 27,690,000. If the profit distribution plan is approved by the shareholders by way of an ordinary resolution at the 2015 annual general meeting to be held on Friday, 13 May 2016, the final dividend is expected to be distributed on Friday, 8 July 2016 to all shareholders whose names appear on the register of the Company on Thursday, 26 May 2016. To determine the identity of the shareholders entitled to receive the final dividend, the register of holders of H Shares of the Company will be closed from Saturday, 21 May 2016 to Thursday, 26 May 2016 (both days inclusive) during which no transfer of H Shares will be registered. In order to qualify for entitlement to the proposed final dividend, all transfers of H Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Share Registrar, Computer Share Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 20 May 2016. Final dividend for holders of Domestic Shares will be declared and calculated in RMB, and paid in RMB whereas final dividend for holders of H Shares will be declared and calculated in RMB, and paid in Hong Kong dollars. The exchange rate shall be determined by the average selling rates promulgated by People's Bank of China within one week before the date declaring to distribute the dividend.

Pursuant to the CIT Law and its implementing regulations, the tax rate of the corporate income tax applicable to the income of non-resident enterprise deriving from the PRC is 10%. For this purpose, any H shares registered under the name of non-individual enterprise, including the H shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organizations or entities, shall be deemed as shares held by non-resident enterprise shareholders as defined under the CIT Law. The Company will distribute the final dividend to non-resident enterprise shareholders subject to a deduction of 10% corporate income tax withheld and paid by the Company on their behalf.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of GuoShui Fa [1993] No. 045 Document issued by the State Administration of Tax on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% individual income tax will be withheld from the final dividend payable to any individual shareholders whose names appear on the register of members of H Shares of the Company on 26 May 2016, unless otherwise stated in the relevant taxation regulations, taxation agreements or the notice.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 32 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 33 and note 41 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group for the year are set out in note 15 to the consolidated financial statements.

STAFF RETIREMENT BENEFIT SCHEME

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

STAFF QUARTERS

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

DIRECTORS AND SUPERVISORS

Directors and Supervisors of the Company 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

Ke Ying
Shen Bo
Yu Xiao Yang

Independent Non-executive Directors

Zhou Zhong Hui
Lam Yiu Kin
Chen Kai Xian (Resigned on 29 May 2015)
Xu Qing (Appointed on 29 May 2015)

Supervisors

Zhao Wen Bin *(Chairman)* (Resigned on 29 May 2015)
Zhou Xi *(Chairman)* (Appointed on 29 May 2015)
Li Ning Jian
Zhang Man Juan
Guo Yi Cheng
Xu Qing (Resigned on 29 May 2015)
Wang Luo Chun (Appointed on 22 February 2016)

CORPORATE GOVERNANCE

The Company has always been endeavoring in establishing a formal and appropriate corporate governance structure. The Company believes that through enhancing its transparency and establishing effective system of accountability, the Company can operate in a more systematic manner, make decisions in a more scientific way, safeguard the interests of all Shareholders, and boost the confidence of investors. Details of corporate governance of the Group are set out in the following sections of the annual report:

1) Corporate Governance Report;
2) Report of the Supervisory Committee;
3) Report of the Audit Committee;
4) Report of the Remuneration Committee;
5) Report of the Nomination Committee.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Refer to "Directors' and Supervisors' Service Contracts" section of the "Corporate Governance Report".

PROFILES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Refer to "Profiles of the Directors, Supervisors and Senior Management" section of the annual report.

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

The remuneration committee determines or makes recommendation to the Board (as appropriate) on the remuneration and other benefits payable to the Directors and Supervisors. The committee regularly oversees the remuneration of all Directors and Supervisors to ensure that their remuneration and compensation are at an appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group, and determines remuneration of the Directors and Supervisors based on their qualifications, experience and contributions, to attract and retain its Directors and Supervisors as well as to control costs.

Details of emoluments of Directors, Supervisors and the top 5 highest paid individuals are set out in note 8 and note 42 to the consolidated financial statements.

Details of senior management of the Group are set out as follows:

	Number	
	Year 2015	Year 2014
Directors	**3**	3
Non-directors	**4**	4
	7	7

The emoluments fell within the following bands:

	Number	
	Year 2015	Year 2014
The emoluments range (HKD)		
1,000,000 – 1,500,000	**2**	1
1,500,000 – 2,000,000	**4**	5
2,500,000 – 3,000,000	**1**	1
	7	7

Details of emoluments of senior management are set out in note 36 to the consolidated financial statements.

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

Refer to “Rights of Directors, Chief Executive and Supervisors in Purchasing Shares or Debentures” section of the “Corporate Governance Report”.

DETAILS OF OPTIONS GRANTED BY THE COMPANY

As at 31 December 2015, the Company did not have any share option scheme in force.

RESTRICTED SHARE SCHEME

On 29 June 2012, the Company adopted the restricted share scheme.

Pursuant to the scheme, the scope of scheme participants shall mainly include Directors, senior management, mid-level management and main research staff of the Company who are necessary to the realization of strategic target of the Company and other key employees who, in the opinion of the Board or the remuneration committee of the Company, contribute directly to the overall business performance and sustainable development of the Group. Refer to the circular of the Company dated 14 May 2012 for more details.

As at the date of this report, the Company has completed the second unlocking stage for the restricted share scheme.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Refer to "Directors' and Supervisors' Interests" section of the "Corporate Governance Report".

PERMITTED INDEMNITY PROVISIONS

During the year under review and as at 31 December 2015, the Company has purchased liability insurance for Directors and Supervisors which provides proper insurance for the Directors and Supervisors.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year under review.

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

As at 31 December 2015, the interests (if any) of the Directors, chief executive and Supervisors and their respective associates in the shares or debentures (including interests in shares and/or short positions) of the Company and its associated corporations, (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 notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules were as follows:

Name of Directors	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in Domestic Shares	Percentage in total share capital
Wang Hai Bo	Domestic Shares	57,886,430 (L)	Beneficial owner	Personal	9.93%	6.27%
Su Yong	Domestic Shares	22,312,860 (L)	Beneficial owner	Personal	3.83%	2.42%
Zhao Da Jun	Domestic Shares	19,260,710 (L)	Beneficial owner	Personal	3.30%	2.09%

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

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2015, 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, or as recorded in the register maintained under Section 336 of the SFO, or as notified to the Company and the Stock Exchange were as follows (the interests in shares and/or short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, chief executive and Supervisors):

Name of substantial shareholders	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the respective class of share capital	Percentage in total share capital
Shanghai Industrial Investment (Holdings) Co., Ltd.	Domestic Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	23.94%	22.77%
	H Shares	70,564,000 (L)			20.75%	
Shanghai Pharmaceuticals	Domestic Shares	139,578,560 (L)	Beneficial owner	Corporate	23.94%	22.77%
	H Shares	70,564,000 (L)			20.75%	
China New Enterprise Investment Fund II	Domestic Shares	156,892,912 (L)	Beneficial owner	Corporate	26.91%	17.00%
Yang Zong Meng	Domestic Shares	80,000,000 (L)	Beneficial owner	Personal	13.72%	8.67%
Fudan University	Domestic Shares	30,636,286 (L)	Interest of controlled corporation	Corporate	5.25%	3.32%
Shanghai Fudan Asset Operating Limited (上海復旦資產經營有限公司)	Domestic Shares	30,636,286 (L)	Beneficial owner	Corporate	5.25%	3.32%

Note 1: The letter "L" stands for long position.

CONNECTED TRANSACTIONS

For the year ended 31 December 2015, the continuing connected transactions of the Group are set out as follows:

Sales and Distribution Agreement with Shanghai Pharmaceutical Distribution

In order to leverage the established and extensive sales and distribution network of Shanghai Pharmaceuticals, a substantial shareholder of the Company, the Company has been engaging Shanghai Pharmaceutical Distribution Co., Ltd. ("Shanghai Pharmaceutical Distribution"), as its distribution agent since 10 August 2010 when the Company entered into a sales and distribution agreement (the "Sales and Distribution Agreement") with Shanghai Pharmaceutical Distribution, a wholly-owned subsidiary of Shanghai Pharmaceuticals. Details of the terms of the updated Sales and Distribution Agreement were set out in the circular issued by the Company on 12 April 2013. The annual caps for the continuing connected transactions contemplated under the Sales and Distribution Agreement for the three years ended 31 December 2015 are approximately RMB 20 million, RMB 31 million and RMB 50 million, respectively, as approved at the annual general meeting held on 30 May 2013. This is a continuing connected transaction and discloseable transaction. During the year 2015, the product sales revenue to Shanghai Pharmaceutical Distribution was RMB 12,303,000, which did not exceed the annual cap which was approved at the annual general meeting held on 30 May 2013.

Strategic Cooperation Agreement for Innovative Pharmaceuticals R&D with Shanghai Pharmaceuticals

In February 2011, the Company entered into the strategic cooperation agreement with Shanghai Pharmaceuticals, a substantial shareholder of the Company, for the cooperation on innovative pharmaceuticals R&D. Both parties would jointly share the risks of, and cooperate on, the research, development and commercialization of the relevant potential pharmaceuticals owned by the Group which are currently at various research stages. Details were set out in the Company's circular issued on 12 April 2013. The transaction was approved at the annual general meeting held on 30 May 2013. The annual caps for the continuing connected transactions contemplated under the strategic cooperation agreement for the three years ending 31 December 2016 were approximately RMB 33 million, RMB 31 million and RMB 20 million, respectively. This is a continuing connected transaction and disclosable transaction. During the year 2015, the Group received an amount of RMB 15,612,000 from Shanghai Pharmaceuticals for cooperation and development, the nature of the transaction was in the context of the framework agreement and the amount did not exceed the annual cap which was approved at the annual general meeting held on 30 May 2013.

The above connected transactions are closely monitored by the Company's Internal Audit and Control Department. The Audit Committee and Independent Non-executive Directors have reviewed the above mentioned continuing connected transactions and confirmed that the transactions have been entered into:

(1) in accordance with the Group's pricing policies;

(2) in the ordinary and usual course of business of the Group;

(3) on normal commercial terms or better; and

(4) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange on 18 March 2016.

Details of material related party transactions undertaken in the ordinary and usual course of business are set out in note 36 to the consolidated financial statements. None of the related party transactions constitutes a connected transaction that should be disclosed, except for the above continuing connected transactions, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

SECURITIES TRANSACTIONS BY DIRECTORS

Refer to "Directors' Securities Transactions" section of the "Corporate Governance Report" for more details.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2015.

PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights in the articles of association of the Company or under the laws of the PRC being the jurisdiction in which the Company was incorporated, 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. The Audit Committee comprises two Independent Non-executive Directors and one Non-executive Director who are Mr. Lam Yiu Kin, Mr. Xu Qing and Mr. Shen Bo. Mr. Lam Yiu Kin was appointed as the chairman of the Audit Committee.

The Audit Committee reviews the accounting principles and practices adopted by the Group as well as the internal controls to check whether they comply with the Listing Rules, and reviews issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee reviewed the Group's annual results and financial statements for year 2015 before proposing to the Board for approval.

For more details, refer to "Report of the Audit Committee" and "Audit Committee" section of the "Corporate Governance Report".

AUDITOR

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 Listing Rules, each of the Independent Non-executive Directors of the Company has confirmed with the Company their independence. The Company has received such confirmations from the Independent Non-executive Directors and has confirmed the independence of Independent Non-executive Directors.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The discussion on the Company's environmental policies and performance during the year under review are set out in the section headed "Social Responsibility" of the "Corporate Governance Report".

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the year under review, the Company has complied with the relevant laws and regulation that have a significant impact on the Company.

By Order of the Board
Wang Hai Bo
Chairman

Shanghai, the PRC
18 March 2016

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

Mr. Wang Hai Bo *(Executive Director)*
Mr. Su Yong *(Executive Director)*
Mr. Zhao Da Jun *(Executive Director)*
Ms. Ke Ying *(Non-executive Director)*
Mr. Shen Bo *(Non-executive Director)*
Ms. Yu Xiao Yang *(Non-executive Director)*
Mr. Zhou Zhong Hui *(Independent Non-executive Director)*
Mr. Lam Yiu Kin *(Independent Non-executive Director)*
Mr. Xu Qing *(Independent Non-executive Director)*

Report of the Supervisory Committee

To the Shareholders:

The supervisory committee of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Supervisory Committee") has performed its duties for the year 2015 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 Group's financial statements and gave advice and recommendations on the issues which were reflected in the Group's operations and management.

The Supervisory Committee duly supervised the Directors and senior management's compliance with the 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 PRC laws and regulations or the Articles of Association by the Directors and managers during the year 2015.

The Supervisory Committee was of the view that the resolutions passed in all board meetings for the year 2015 had been made with a view to protecting the Group's interests. No insider dealings, or anything which was prejudicial to the interests of the Group, or loss of Group's assets was acknowledged. The auditor's reports issued by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP are true and objective. The Group's financial statements have accurately reflected the Group's financial position.

The Supervisory Committee is satisfied with the achievement and progress of each task of the Group in 2015 and has great confidence in the future of the Group.

Supervisory Committee

Mr. Zhou Xi *(Chairman)*
Mr. Li Ning Jian
Ms. Zhang Man Juan
Mr. Guo Yi Cheng
Mr. Wang Luo Chun

Shanghai, the PRC
18 March 2016

Report of the Audit Committee

The Audit Committee is comprised of two Independent Non-executive Directors (Mr. Lam Yiu Kin and Mr. Xu Qing) and one Non-executive Director (Mr. Shen Bo). Mr. Lam Yiu Kin, Independent Non-executive Director, was appointed as the chairman of the Audit Committee. Mr. Lam Yiu Kin is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants in Australia (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Shen Bo is a master of professional accounting and he is the chief financial officer of a listed company in pharmaceuticals industry. Mr. Xu Qing is currently a professor of Tongji Unversity Medical School, doctor-postgraduate supervisor, deputy director of the Oncology Department and Tumor Institute, and director, chief physician of Medical Oncology Department of the Tenth People's Hospital affiliated to Tongji University. And he is director of Medical Oncology Department of Shanghai Dermatology Hospital affiliated to Tongji University. All of them have extensive experience in accounting, industry, and financial 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 which were passed by the Board of the Company specifically laid down the terms of reference of the Audit Committee and elaborated its role and the power as conferred to the Audit Committee by the Board.

The Audit Committee has sufficient resources to carry out its duties. The Audit Committee is accountable to the Board, and the minutes of its meetings should be submitted to the Board for reference.

A summary of the work performed by the Audit Committee in 2015 is as follows:

1) Review the financial reports for the year ended 31 December 2014 and for the half year ended 30 June 2015, respectively;

2) Review connected transactions of the Group during the year 2014;

3) Supervise the Group's financial reporting system and internal control procedures;

4) Review the external audit arrangements and related explanations;

5) Review and approve the audit fees for 2015.

Report of the Audit Committee

The Audit Committee meeting held on 18 March 2016 reviewed the Company's 2015 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 with the accounting treatments adopted by the Group, and has made efforts to ensure that the financial information disclosed in the consolidated financial statements complies with relevant requirements of the applicable accounting principles and the Listing Rules. Accordingly, the Audit Committee proposed that the Board approved the annual results announcement and the consolidated financial statements for the year ended 31 December 2015, and the Audit Committee proposed that the Board considered the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the international and the statutory auditors of the Group, respectively, for the year 2016.

The Audit Committee held two meetings in 2015.

Audit Committee

Mr. Lam Yiu Kin *(Chairman)*
Mr. Shen Bo
Mr. Xu Qing

Shanghai, the PRC
18 March 2016

Report of the Remuneration Committee

The Remuneration Committee is comprised of 3 members, who are Mr. Zhou Zhong Hui, Mr. Lam Yiu Kin, and Mr. Xu Qing. Mr. Zhou Zhong Hui is the Chairman of the Committee.

The terms of reference for the Remuneration Committee is: to make recommendations to the Board on the Company's remuneration policy and structure for all Directors, supervisors and senior management and on the establishment of a formal and transparent procedure for developing such policy remuneration; to formulate the remuneration management policy and remuneration packages scheme of individual Executive Directors and senior management and make recommendations to the Board; such remuneration packages include benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board of the remuneration of Non-executive Directors and supervisors; in formulating the remuneration policies and standards, the Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, supervisors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration; to review and approve the remuneration packages of the management by reference to corporate goals and objectives resolved by the Board from time to time; to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; to review and approve compensation arrangements relating to dismissal or removal of directors and supervisors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; to ensure that no Director or supervisor or any of their associates is involved in deciding his/her own remuneration; to research the share incentive plan of the Company and put forward proposals; requirements in relation to the scope of work for the Remuneration Committee under the Listing Rules of other places where the Company's securities are listed (as amended from time to time).

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

Report of the Remuneration Committee

A summary of the work performed by the Remuneration Committee in 2015 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 2014;

3) Formulate the remuneration scheme for the Directors and Supervisors for 2015.

4) Review and approve the first unlock application for restricted share scheme of the Company.

The Remuneration Committee held one meeting in 2015.

Remuneration Committee

Mr. Zhou Zhong Hui *(Chairman)*
Mr. Lam Yiu Lin
Mr. Xu Qing

Shanghai, the PRC
18 March 2016

Report of the Nomination Committee

The Nomination Committee is comprised of 3 members, who are Mr. Wang Hai Bo (Chairman, Chairman of Board of Directors), Mr. Zhou Zhong Hui (Independent Non-executive Director), and Mr. Xu Qing (Independent Non-executive Director).

The Board of the Company set up the Nomination Committee in April 2012 and approved the Principles of the Nomination Committee which stipulated the terms of reference for the Nomination Committee and elaborated its role and the authority delegated to it by the Board. The Nomination Committee is provided with sufficient resources to perform its duties. The Nomination Committee is accountable to the Board and its meeting minutes should be submitted to the Board for reference.

The Nomination Committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; examining the candidates of directors and chief executive and the candidates of deputy chief executive, finance officer, general legal counsel, chief economist, assistant to chief executive and secretary of Board and put forward examination opinions and appointment recommendations; assessing the independence of Independent Non-executive Directors; making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief-executive; researching the standard, procedure and method of selection of directors, chief executive and other senior management of the Company and to put forward proposals to the Board; and other authority delegated to the Nomination Committee by the Board and matters assigned by the Board.

A summary of the work performed by the Nomination Committee in 2015 is as follows:

1) Review and propose the candidates of Independent Non-executive Directors;

2) Assess the independence of Independent Non-executive Directors;

3) Report to the Board the composition of the Board members and monitor the implementation of the policy on board diversity.

The Nomination Committee held one meeting in 2015.

Nomination Committee

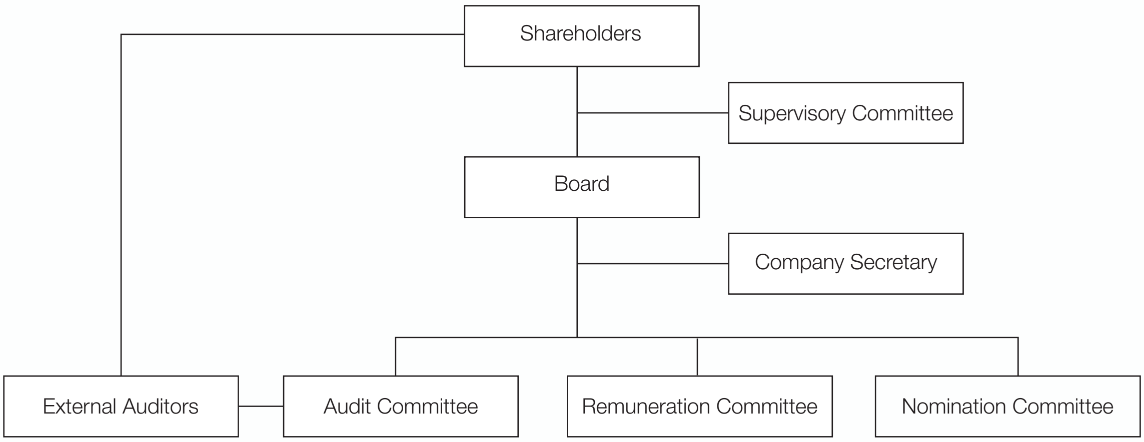
Mr. Wang Hai Bo *(Chairman)*
Mr. Zhou Zhong Hui
Mr. Xu Qing

Shanghai, the PRC
18 March 2016

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Company's corporate governance structure is as follows:



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

a) Articles of Association;

b) Principles of the Audit Committee;

c) Principles of the Remuneration Committee;

d) Principles of the Nomination Committee;

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

f) Daily management documents of the Company.

The Board has reviewed the documents relating to corporate governance policies adopted by the Company and considered that it had complied with most of the principles and codes set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules. In some aspects, the codes of corporate governance adopted by the Company are even stricter than the provisions as set out in the Code. Details are set out as follows:

Major aspect which is stricter than the provisions as set out in the Code:

– Two-thirds of the members of the audit committee of the Company (the "Audit Committee") are Independent Non-executive Directors.

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

– The positions of the chairman and the general manager rest on the same person. Although the Articles of Association contains specific requirements on the responsibilities of the chairman and the general manager (chief executive), such being the responsibilities of managing the operation of the Board and managing the daily operation of the Company, respectively, the two positions are still taken by one person. Considering that the scale of the Company is relatively small with its businesses mainly focused in the areas of research, production and sales of innovative drugs, and that it has not completely stepped out the venture period for the time being, also for the sake of management efficiency, the Board takes the view that the positions of chairman and chief executive being 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 to segregate duties of the chairman and the chief executive.

BOARD

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

Directors

Currently, the Board comprises the Chairman, two other Executive Directors, three Non-executive Directors and three Independent Non-executive Directors. Except for Mr. Xu Qing who joined the Board as Independent Non-executive Director on 29 May 2015, all the other Directors were in place in the whole year of 2015.

Particulars of the Directors are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" of the annual 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	30 May 2014	Three years
Su Yong	20 January 2002	30 May 2014	Three years
Zhao Da Jun	20 January 2002	30 May 2014	Three years
Non-executive Directors			
Ke Ying	27 May 2011	30 May 2014	Three years
Shen Bo	29 June 2012	30 May 2014	Three years
Yu Xiao Yang	30 May 2013	30 May 2014	Three years
Independent Non-executive Directors			
Zhou Zhong Hui	30 May 2013	30 May 2014	Three years
Lam Yiu Kin	9 October 2013	30 May 2014	Three years
Xu Qing	29 May 2015	–	From the appointed date to the AGM held in 2017

The Company's Independent Non-executive Directors have a wide range of skills and experience. They are able to provide adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole.

The Board considers that they can make independent judgments effectively in compliance with the guidelines for assessment of independence under Rule 3.13 of the Listing Rules.

All the Directors have the terms of office for no more than three years, and can be nominated for re-election at the annual general meeting.

Powers of the Board

The Board reviews the performance of the operating divisions against their proposed 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 at 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 budget plans and final accounting plans 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 issuance 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 administrative affairs of the Company other than those to be resolved at the general meeting pursuant to the Company Law and the Articles of Association, and signing other important agreements.

The Board is responsible for leadership and control of the Group as well as promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorizing the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. The Board delegates the day-to-day management, administration and operation of the Group to management. The Board is responsible for the completeness of financial information and the effectiveness of the Group's internal controls system and risk management processes. The Board is also responsible for preparing financial accounts of the Company. Achievement of the Company's business objectives and the daily management of business are delegated to the general manager (chief executive). The Board regularly reviews the duties of the general manager and the powers delegated to the general manager, so as to ensure the appropriateness of such arrangements.

Chairman and the General Manager

Although the Articles of Association contains specific requirements on the responsibilities of the chairman and the general manager (chief executive), such being the responsibilities of managing the operation of the Board and managing the daily operation of the Company, respectively, the two positions are still taken by one person. Considering that the scale of the Company is relatively small, with its businesses mainly focused in the areas of research, production and sales of innovative drugs, and that it has not completely stepped out the venture period for the time being, also for the sake of management efficiency, the Board takes the view that the positions of chairman and chief executive being 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 to segregate duties of the Chairman and the chief executive.

Board Diversity

The Board has adopted a board diversity policy which became effective on 9 October 2013. The Company seeks to achieve board diversity through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

As at the date of this report, the Board comprises 9 directors. Two of them are women and one of them resides in Hong Kong. Three of them are Independent Non-executive Directors and are able to promote a critical review and control of the management process. The composition of the Board is diversified in terms of gender, nationality, professional background and skills.

Board Meetings

The Chairman is responsible for the leadership of the Board and ensuring the Board to perform its duties effectively. The Chairman is also responsible for setting agenda for the Board meetings and considering matters which are proposed by other directors for inclusion in the agenda. The agenda and accompanying board documents are circulated where possible at least three days prior to the Board or committee meeting. The Chairman is also responsible for making sure that all Directors are properly briefed on issues which will be discussed at board meetings. The Chairman ensures that the Directors can receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Group through their ongoing participation at board and committee meetings, and through meeting key people 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 all Committees.

Minutes of board meetings are taken by the Company Secretary and, together with any supporting board documents, are available to all board members. Board meetings are structured to encourage open discussion and frank debate among the Directors, such that the Non-executive Directors can put forward effective queries to each Executive Director effectively. The Independent Non-executive Directors meet privately to discuss matters which are associated with their specific responsibilities when necessary,

In furtherance of good corporate governance, the Board has established three sub-committees: an Audit Committee, a Remuneration Committee and a Nomination Committee. All of them have terms of reference which accord with the principles set out in the 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 held 6 meetings during 2015, four of which are on-site, and the other two are held by way of communication. The attendance of individual directors at the board meetings is set out in the table below.

Members of the Board	Required number of attendance for the year	Attendance in person	Attendance by way of communication	Attendance by proxy	Absence	Attendance rate
Executive Directors						
Wang Hai Bo *(Chairman)*	6	4	2	0	0	100%
Su Yong	6	4	2	0	0	100%
Zhao Da Jun	6	4	2	0	0	100%
Non-executive Directors						
Ke Ying	6	4	2	0	0	100%
Shen Bo	6	2	2	2	0	100%
Yu Xiao Yang	6	4	1	0	1	83%
Independent Non-executive Directors						
Zhou Zhong Hui	6	4	2	0	0	100%
Lam Yiu Kin	6	4	2	0	0	100%
Chen Kai Xian (Resigned on 29 May 2015)	1	1	0	0	0	100%
Xu Qing (Appointed on 29 May 2015)	5	1	2	2	0	100%

The table below sets out the time and major agenda of Board meetings in 2015:

Time of Board meetings	Major agenda
Regular Board meetings	
24 March 2015	Reviewed the annual report of 2014; Considered the distribution of dividend; Considered the re-appointment of the auditors; Considered to re-elect and appoint directors and supervisors; Considered the 2015 remuneration plans for Directors and Supervisors; Determined the time for annual general meeting.
29 May 2015	Reviewed the first quarterly operation results of 2015; Considered and approved the proposed Issue of A Shares; Considered and approved the proposal on authorization to the Board to deal with matters relating to the Issue of A Shares; Considered and approved the proposal on use of proceeds from the Issue of A Shares; Considered and approved the proposal on accumulated profit distribution plan before the Issue of A Shares; Considered and approved the proposal on three-year dividend distribution plan after the Issue of A Shares; Considered and approved the proposal on share price stabilization plan within three years after the Issue of A Shares; Considered and approved the proposal on undertakings on the matters in connection with the Issue of A Shares and putting forward restraining measures; Considered and approved the proposal on the Articles (Draft) to be applicable and effective after the Issue of A Shares; Considered and approved the proposal on dilution of immediate return by the Issue of A Shares and recovery measures.
11 August 2015	Reviewed the interim results report of 2015.
21 November 2015	Reviewed the third quarterly operation results of 2015.

Time of Board meetings	Major agenda
Extraordinary Board meeting	
23 June 2015	Considered and approved the updated proposed Issue of A Shares; Considered and approved the updated proposal on authorization to the Board to deal with matters relating to the Issue of A Shares; Considered and approved the updated proposal on three-year dividend distribution plan after the Issue of A Shares; Considered and approved the proposal on "proposed Issue of A Shares and proposed amendment of articles of association" and related authorization.
30 December 2015	Considered and approved the updated "Principles of the Audit Committee".

Directors' Training

The Company provides introduction and information to newly appointed directors on their legal and other responsibilities as directors and their functions. In addition, the Company invites legal adviser to answer the questions about the above documents and the questions raised by the newly appointed directors.

During the year under review, all directors participated in the continuing education program to develop and update their knowledge and skills. The Company secretary sent the documents such as industry frontier information, Director's responsibilities to the directors for reference by e-mail twice during the year under review. The attendance of the training was as follows:

Members of the Board	Attendance/ Times of trainings	Attendance rate
Wang Hai Bo *(Chairman)*	2/2	100%
Su Yong	2/2	100%
Zhao Da Jun	2/2	100%
Ke Ying	2/2	100%
Shen Bo	2/2	100%
Yu Xiao Yang	2/2	100%
Zhou Zhong Hui	2/2	100%
Lam Yiu Kin	2/2	100%
Chen Kai Xian (Resigned on 29 May 2015)	1/1	100%
Xu Qing (Appointed on 29 May 2015)	1/1	100%

The Company has kept training record to assist the Directors to record the training sessions they participated in. The attendance record above does not include any external training which the Directors participated in by themselves.

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 in every financial report period in respect of any transactions of the Company or its subsidiaries which are related to Directors or their associates (if any). It is also applicable to the Supervisors.

The Group has not entered into any transactions agreement or contract of significance in which the Group's Directors or Supervisors have direct or indirect material interests during any time in 2015.

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 at the general meeting. The terms of the service contracts are approved by the Remuneration Committee. Some directors will be proposed for re-election at the forthcoming annual general meeting. None of the Directors or Supervisors proposed for re-election at the annual general meeting of the Company to be held in or around June 2017 has an unexpired service contract which is not terminable by the Company or its subsidiaries within a year without payment of any compensation (other than statutory compensation).

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 under age of 18 years 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 the year 2015.

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 the Directors".

SUPERVISORY COMMITTEE

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

Supervisors	Time of initial appointment	Date of latest re-appointment	Term
Zhao Wen Bin (Shareholders' representative Supervisor, resigned on 29 May 2015)	30 May 2013	30 May 2014	1 year
Zhou Xi (Shareholders' representative Supervisor, appointed on 29 May 2015)	29 May 2015	–	From the appointed date to the AGM held in 2017
Li Ning Jian (Shareholders' representative Supervisor)	30 May 2013	30 May 2014	3 years
Zhang Man Juan (Staff representative Supervisor)	24 June 2005	30 May 2014	3 years
Guo Yi Cheng (Independent Supervisor)	23 May 2008	30 May 2014	3 years
Xu Qing (Independent Supervisor, resigned on 29 May 2015)	23 May 2008	30 May 2014	1 year

The Supervisory Committee held four meetings during 2015, the attendance of which was as follows:

Members of the Supervisory Committee	Attendance in person/ Times of meetings	Attendance rate
Zhao Wen Bin *(Chairman)* (resigned on 29 May 2015)	1/1	100%
Zhou Xi *(Chairman)* (appointed on 29 May 2015)	2/3	67%
Li Ning Jian	4/4	100%
Zhang Man Juan	4/4	100%
Guo Yi Cheng	4/4	100%
Xu Qing (Resigned on 29 May 2015)	1/1	100%

The Supervisory Committee takes the view that the financial statements presented by the Company give a true and fair view of the state of affairs, profit and cash flows of the Group.

DIRECTORS' SECURITIES TRANSACTIONS

The amended "Code of transactions in the Company's securities", which was passed on 11 August 2009 by the Board meeting of the Company, has the terms no less strict than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules. Directors and relevant employees shall comply with this code. A copy of the code is sent to each Director upon his appointment and thereafter, a notification not to deal in the securities of the Company until after the half-year results have been published would be sent to the Directors 30 days before the date of every Board meeting on which the half-year results are supposed to be approved, and 60 days before the annual board meeting.

Under this code, the 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 delegated directors and receive a dated written acknowledgement before any dealing.

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

All Directors, Supervisors and relevant employees have complied with the relevant requirements in 2015.

INTERNAL CONTROL

The Company's Audit Committee and the Board have reviewed the effectiveness of the internal control system of the Group during the year 2015. In February 2011, the Company established the Internal Audit and Control Department to enhance its internal control system and guarantee the effectiveness of the Company 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.

Corporate Governance Measures to Manage Potential Conflicts of Interests

Since the Non-Competition Undertaking was entered into by Shanghai Pharmaceuticals in 2000, the Company has been adopting certain corporate governance measures to ensure compliance of the Non-Competition Undertaking by Shanghai Pharmaceuticals. The existing corporate governance measures require the Company to regularly communicate with Shanghai Pharmaceuticals and monitor the business activities of Shanghai Pharmaceuticals.

The Company has enhanced the effectiveness of its previous corporate governance measures by modifying the measures as follows:

– The Independent Non-executive Directors will review, on an annual basis, the compliance with the Non-Competition Undertaking by Shanghai Pharmaceuticals;

– Shanghai Pharmaceuticals will provide the necessary information for the annual review by the Independent Non-executive Directors in relation to the compliance and enforcement of the Non-Competition Undertaking; and

– The Company will disclose, with basis, decisions on matters reviewed by the Independent Non-executive Directors relating to the compliance and enforcement of the Non-Competition Undertaking in its annual reports.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial report, internal control and corporate governance issues and making relevant recommendations to the Board. The Audit Committee is comprised of two Independent Non-executive Directors (Mr. Lam Yiu Kin and Mr. Xu Qing) and one Non-executive Director (Mr. Shen Bo). Mr. Lam Yiu Kin (an Independent Non-executive Director) is the chairman of the Committee. Mr. Lam Yiu Kin is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants in Australia (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Shen Bo is a master of professional accounting and he is the chief financial officer of a listed company in pharmaceuticals industry. Mr. Xu Qing is currently a professor of Tongji Unversity Medical School, doctor-postgraduate supervisor, deputy director of the Oncology Department and Tumor Institute, and director, chief physician of Medical Oncology Department of the Tenth People's Hospital affiliated to Tongji University. And he is director of Medical Oncology Department of Shanghai Dermatology Hospital affiliated to Tongji University. All of them have extensive experience in accounting, industry, and financial management.

The Company has formulated specific "Principles of the Audit Committee" as a guideline for the Audit Committee in dealing with various matters. The updated Principles of the Audit Committee were passed by the Board of Directors on 30 December 2015.

The Audit Committee met two times in 2015. Senior management and/or external auditors were invited to attend each meeting. In 2015, the Audit Committee has reviewed reports of external auditors, the accounting principles and practices adopted by the Group, internal controls to check whether they comply with the Listing Rules and reviewed issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee made discussions on the Group's 2014 annual results and 2015 interim results before proposing to the Board for approval. The Audit Committee has discussed the appointment of external auditors and the audit fees, and has made proposals to the Board in respect of such matters.

Attendance of meetings of the Audit Committee in 2015:

Audit Committee	Attendance in person/ Times of meetings	Attendance rate
Lam Yiu Kin *(chairman)*	2/2	100%
Shen Bo	2/2	100%
Chen Kai Xian (resigned on 29 May 2015)	1/1	100%
Xu Qing (appointed on 29 May 2015)	1/1	100%

Connected transactions

The Audit Committee has reviewed the connected transactions. For the year ended 31 December 2015, the connected transactions were either exempted from disclosure requirement or have been approved by the general meeting.

External auditors

The Company appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the Company's international and statutory auditors respectively in 2015. The Company has not changed the auditors in the past three years. The fees on the audit services, non-audit services and related expenses of the Group for the year and the previous year are set out as follows:

Auditors	**Audit fees and non-audit fees in 2015**	Audit fees and non-audit fees in 2014
PricewaterhouseCoopers	**RMB 1,161,000**	RMB 1,100,000
PricewaterhouseCoopers Zhong Tian LLP	**RMB 950,000**	RMB 798,000
Other auditor	**RMB 23,000**	–

Details of the audit fees and non-audit fees are set out as follows:

	Fees in 2015	Fees in 2014
Audit fees	**RMB 2,118,000**	RMB 1,890,000
Non-audit fees	**RMB 16,000**	RMB 8,000

The Group has formulated the policy of appointment of auditors to provide non-audit services. The policy included the rules to ensure the independence of external auditors.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for formulating the Group's remuneration policy, recommending and approving 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. Under the relevant laws and regulations of China, 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 the Remuneration Committee, and stipulated the "Principles of the Remuneration Committee" with specific terms of reference of the Remuneration Committee. The Remuneration Committee is comprised of 3 members, who are Mr. Zhou Zhong Hui (Chairman, Independent Non-executive Director), Mr. Lam Yiu Kim (Independent Non-executive Director) and Mr. Xu Qing (Independent Non-executive Director). The updated Principles of the Remuneration Committee were passed by the board on 30 May 2014.

The Remuneration Committee held one meeting during 2015, the attendance of which was as follows:

Remuneration Committee	**Attendance in person/ Times of meetings**	**Attendance rate**
Zhou Zhong Hui *(chairman)*	1/1	100%
Lam Yiu Kin	1/1	100%
Chen Kai Xian (resigned on 29 May 2015)	1/1	100%
Xu Qing (appointed on 29 May 2015)	–	–

Pursuant to the principles above, recommended by the Remuneration Committee and approved by the Board and annual general meeting, the remuneration of the Directors and senior management of the Group have been modified during the year 2015. Refer to note 36 and note 42 to the consolidated financial statements for the emoluments of Directors and senior management for 2015.

Remuneration Policy for Executive Directors

The primary goal of the remuneration policy on executive remuneration packages is to enable the Company to motivate and retain 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 Remuneration Committee refers to remuneration surveys conducted by independent external consultants on companies operating in similar businesses.

Basic salaries

Basic salaries are determined 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 which circumstance that the Directors concerned should abstain.

Discretionary bonus

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

Statutory benefits

Under the relevant laws and regulations of China, 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.

During the year under review, none of the Executive Directors of the Company charged any Director's fee.

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 only paid remuneration to the Independent Non-executive Directors, and has not paid any statutory benefit to the Non-executive Directors.

NOMINATION COMMITTEE

The Nomination Committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; examining the candidates of directors and chief executive and the candidates of deputy chief executive, finance officer, general legal counsel, chief economist, assistant to chief executive and secretary of Board and putting forward examination opinions and appointment recommendations; assessing the independence of Independent Non-executive Directors; making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive; researching the standard, procedure and method of selection of directors, chief executive and other senior management of the Company and putting forward proposals to the Board; and other authority delegated to the Committee by the Board and matters assigned by the Board.

The Board of the Company established the Nomination Committee in April 2012 and approved the "Principles of the Nomination Committee" which stipulated the terms of reference for the Nomination Committee. The Nomination Committee is comprised of 3 members, who are Mr. Wang Hai Bo (Chairman, Chairman of Board of Directors), Mr. Zhou Zhong Hui (Independent Non-executive Director) and Mr. Xu Qing (Independent Non-executive Director). The updated "Principles of the Nomination Committee" were passed by the Board on 30 May 2014.

The Nomination Committee held one meeting during 2015, the attendance of which was as follows:

Members of the Nomination Committee	**Attendance in person/ Times of meetings**	**Attendance Rate**
Wang Hai Bo *(chairman)*	1/1	100%
Zhou Zhong Hui	1/1	100%
Chen Kai Xian (resigned on 29 May 2015)	1/1	100%
Xu Qing (appointed on 29 May 2015)	–	–

Pursuant to the Code Provision A.5.6 under Appendix 14 of the Listing Rules, the Nomination Committee should be with due regard for the benefits of diversity in Board members, to identify individuals who are suitably qualified to become Board members and to select or to make recommendations to the Board on the selection of individuals nominated for directorships; the candidates for directorship will be selected taken into account a wide range of factors, including but not limited to, gender, age, cultural and educational background, races, professional experience, skills, knowledge and service term.

COMPANY SECRETARY

The primary responsibility of the company secretary of the Company is to ensure good information exchange between board members, and investors with the Company as well. In addition, the company secretary should be responsible for the compliance with the policies and procedures of the board of directors as well as all applicable regulations. During the year 2015, the Company Secretary has completed over 15 hours training provide by the professional agents.

RIGHTS OF INVESTORS

Shareholders requisitioning the convening of extraordinary general meetings of shareholders or class meetings shall abide by the following procedures:

(1) Two or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign a written requisition in one or more counterparts in the same form and contents, requiring the board of directors to convene a shareholders' extraordinary general meeting or a class meeting thereof and stating the matters to be considered at the meeting. The board of directors shall as soon as possible after receipt of the requisition proceeds to convene a shareholders' extraordinary general meeting or a class meeting thereof.

    The amount of shareholdings of the requisitioning shareholders referred to in the preceding paragraph shall be calculated as at the date of the deposit of the requisition.

(2) If the board of directors fails to issue a notice of such a meeting within 30 days from the date of receipt of the requisition, the requisitioning shareholders may themselves convene such a meeting within 4 months of the receipt of the requisition by the board of directors. In so convening a meeting, the requisitioning shareholders should adopt a procedure as similar as possible as that of shareholders' general meetings to be convened by the board of directors.

All reasonable expenses incurred in connection with a meeting convened by any shareholders themselves by reason of the failure of the board of directors to convene a meeting pursuant to a requisition shall be borne by the Company and shall be set off against sums owed by the Company to the directors in default.

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 shareholders. The Chairman therefore makes himself available to meet shareholders for this purpose. On a day-to-day basis the Board's primary contact with shareholders is through the Company Secretary. In addition, the Company Secretary may respond to the various enquiries of shareholders, and provide relevant information.

When the Company convenes a shareholders' annual general meeting, shareholders holding 5% or more of the total voting shares of the Company shall have the right to propose new motions in writing, and the Company shall place those matters in the proposed motions within the scope of the functions and powers of the shareholders' general meeting on the agenda.

RELATIONSHIP WITH INVESTORS

In recent years, the Company has attracted much higher attention from the capital markets. Investors at home and abroad addressed invitations to the Company through various means, including on-site surveys, telephone surveys, and invitations to participate in investment strategy forums. Based on the principles of communicating actively and information disclosure, the Company enhanced the efforts on the reception of investors to improve our market image. The Company has received visits of nearly 230 analysts and representatives from investment institutions and individual investors focusing on the domestic and foreign medical industries.

Reference is made to the announcement of the Company dated 20 January 2009, the public float of the Company has been lowered to 17.95%. On 4 February 2013, the Company has completed the placement of 142,000,000 H shares, which solved the problem of insufficient public float. As at 31 December 2015, the public float of the Company has increased to 29.19%. Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Directors believe that the Company has at all times during the year ended 31 December 2015 maintained the relevant applicable minimum percentage of listed securities as prescribed by Rule 8.08(1)(a) of the Listing Rules.

For the year 2015, there is no significant change on the Articles of Association of the Company except for the changes as a result of the less member numbers of the Board and Supervisory Committee.

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

In 2015, the Company has held an annual general meeting, details of which are as follows:

Time	10:00 a.m., 29 May 2015
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 annual general meeting; To consider and approve the proposed profit distribution plan for the year ended 31 December 2014 and the final dividend distribution plan for the year ended 31 December 2014, and to authorize the Board to distribute such final dividend to its Shareholders; To consider and approve the appointment of an Independent Non-executive Director and a Supervisor; To consider and approve the granting of a general mandate to the Board to issue the shares of the Company.

In 2015, the Company has held an extraordinary general meeting, details of which are as follows:

Time	10:00 a.m., 11 August 2015
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Shareholders extraordinary general meeting
Way of voting	Poll
Major issues	To consider and approve the proposed Issue of A Shares; To consider and approve the proposal on authorization to the Board to deal with matters relating to the Issue of A Shares; To consider and approve the proposal on use of proceeds from the Issue of A Shares; To consider and approve the proposal on accumulated profit distribution plan before the Issue of A Shares; To consider and approve the proposal on three-year dividend distribution plan after the Issue of A Shares; To consider and approve the proposal on share price stabilization plan within three years after the Issue of A Shares; To consider and approve the proposal on undertakings on the matters in connection with the Issue of A Shares and putting forward restraining measures; To consider and approve the proposal on the Articles (Draft) to be applicable and effective after the Issue of A Shares; To consider and approve the proposal on dilution of immediate return by the Issue of A Shares and recovery measures.

In 2015, the Company has held one class meeting of holders of H Shares, details of which are as follows:

Time	11:00 a.m., 11 August 2015
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Class meeting of holders of H Shares
Way of voting	Poll
Major issues	To consider and approve the proposed Issue of A Shares; To consider and approve the proposal on authorization to the Board to deal with matters relating to the Issue of A Shares; To consider and approve the proposal on use of proceeds from the Issue of A Shares; To consider and approve the proposal on accumulated profit distribution plan before the Issue of A Shares; To consider and approve the proposal on three-year dividend distribution plan after the Issue of A Shares; To consider and approve the proposal on share price stabilization plan within three years after the Issue of A Shares; To consider and approve the proposal on undertakings on the matters in connection with the Issue of A Shares and putting forward restraining measures; To consider and approve the proposal on the Articles (Draft) to be applicable and effective after the Issue of A Shares; To consider and approve the proposal on dilution of immediate return by the Issue of A Shares and recovery measures.

In 2015, the Company has held one class meeting of holders of Domestic Shares, details of which are as follows:

Time	11:30 a.m., 11 August 2015
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Class meeting of holders of Domestic Shares
Way of voting	Poll
Major issues	To consider and approve the proposed Issue of A Shares; To consider and approve the proposal on authorization to the Board to deal with matters relating to the Issue of A Shares; To consider and approve the proposal on use of proceeds from the Issue of A Shares; To consider and approve the proposal on accumulated profit distribution plan before the Issue of A Shares; To consider and approve the proposal on three-year dividend distribution plan after the Issue of A Shares; To consider and approve the proposal on share price stabilization plan within three years after the Issue of A Shares; To consider and approve the proposal on undertakings on the matters in connection with the Issue of A Shares and putting forward restraining measures; To consider and approve the proposal on the Articles (Draft) to be applicable and effective after the Issue of A Shares; To consider and approve the proposal on dilution of immediate return by the Issue of A Shares and recovery measures.

The attendance of individual directors at the general meeting during the year 2015 is set out in the table below:

Member of the Board	Attendance in person/ Times of meetings	Attendance rate
Executive Director		
Wang Hai Bo *(chariman)*	2/2	100%
Su Yong	2/2	100%
Zhao Da Jun	2/2	100%
Non-executive Director		
Ke Ying	2/2	100%
Shen Bo	0/2	0%
Yu Xiao Yang	0/2	0%
Independent Non-executive Director		
Zhou Zhong Hui	2/2	100%
Lam Yiu Kin	2/2	100%
Chen Kai Xian (resigned on 29 May 2015)	0/1	0%
Xu Qing (appointed on 29 May 2015)	0/1	0%

Arrangements for the dates of the annual results in 2015, the interim results in 2016 and the annual general meeting are as follows:

Items	Proposed time
Announcement of 2015 results	18 March 2016
Annual general meeting	13 May 2016
Announcement of 2016 interim results	Around 10 August 2016

SOCIAL RESPONSIBILITY

Environment and Society

As a listed company, the Company has been active to fulfill its social responsibilities, focus on environmental protection for many years. We take into account this responsibility as an important factor in all aspect. This means that we not only focus on the production, but also focus on all the other aspect ranging from procurement to administration. The Group will adopt the best practice measures as far as possible and reasonable. The relevant functional departments will consider the environmental management by assessing the policy, strategies, objectives, implementation and measurement method in terms of the pollution of water, air, noise and the other wastes.

During the year under review, the Group has always followed the environment policy, strictly complied with national laws and regulations and emission standards. The Group has been inspected many times by relevant government institutions on sewage discharge during the year and no violation of laws, regulations has been found. In addition, the Company also appointed a third party professional institution to assess the environmental indicators including noise, air and water regularly. Our objective is to control environment risks effectively and ensure the pollutant can reach the standard of discharge.

The Company will publish the environmental report of 2015 on the Company's website.

By order of the Board
Xue Yan
Secretary

Shanghai, the PRC
18 March 2016

Profiles of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Wang Hai Bo, aged 55, was appointed as an Executive Director in November 1996. He is also the chairman of the Board and general manager of the Company. He founded the Company in November 1996. He was an associate professor at Fudan University from May 1995 to June 1996. 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) and Technology Advancement Award of the Shanghai Municipality (上海市科技進步獎). He graduated from Fudan University with a bachelor's degree in Biology in July 1983 and master's degree in Biology in July 1986. He was the former chief technology officer of Zhejiang Shenghua Biok Biology Co., Ltd., a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 600226).

Su Yong, aged 51, was appointed as an Executive Director in January 2002. He is also the deputy general manager of the Company. He joined the Company in April 1997. He has been working in the field of genetic engineering for over twenty years. He was the chief engineer of Hangzhou Jiuyuan Gene Engineering Co., Ltd. from January 1994 to April 1997, during which he was responsible for managing the genetic engineering department. He graduated from Northwest Normal University with a bachelor's degree in Biology Science in July 1985, from Fudan University with a master's degree in Biochemistry in July 1993, and from Zhejiang University with a Ph.D. in Oncology in June 2000.

Zhao Da Jun, aged 45, was appointed as an Executive Director in January 2002. He is also the deputy general manager and an authorized representative of the Company. He is a cofounder of the Company. He was a teaching assistant at the Law School of Fudan University from August 1995 to October 1996. He was 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 graduated from Fudan University with a bachelor's degree in Biology in July 1992, a master's degree in Biology in July 1995, and from University of Hong Kong with a master's degree in Business Administration in November 2001.

Non-executive Directors

Ke Ying, aged 47, was appointed as a Non-executive Director in May 2011. She is a senior engineer. She is currently the general manager of R&D Department of Shanghai Pharmaceuticals. She has extensive management experience in R&D of drugs. She used to be the deputy manager of Shanghai Si Wei Pharmaceutical Technical Co., Ltd. (上海斯威醫藥化學技術有限公司) from 1999 to 2002, the project manager and assistant to the general manager of Shanghai Kaiman Bio-technology Co., Ltd. (上海凱曼生物科技有限公司) from 2002 to 2004, and the minister of Resource Department and the assistant to the principal of the Central Research Institute of Shanghai Pharmaceuticals from 2008 to 2010. She graduated from East China Normal University with a bachelor's degree in Chemistry in July 1990, and a master's degree in Fine Organic Synthesis in July 1993.

Profiles of Directors, Supervisors and Senior Management

Shen Bo, aged 42, was appointed as a Non-executive Director in June 2012. He has passed the PRC Certified Public Accountants examination. He is the chief financial officer and general manager of Shanghai Pharmaceuticals, and concurrently appointed as the chairman of Shanghai Medical Instrument Co., Ltd., supervisor of Shanghai Pharmaceutical Distribution Co., Ltd., director of SPH Keyuan Xinhai Pharmaceutical Co., Ltd., director of Changzhou Pharmaceutical Co., Ltd.. He used to be the deputy manager of the financial department of Shanghai Jinling Co., Ltd. from 1996 to 2000, financial director of Shanghai Jinling Tai Ke IT Development Co., Ltd. from May 2000 to December 2000, chief financial officer of Shanghai Industrial Pharmaceutical Investment Co., Ltd. from January 2006 to November 2006 and general manager of the financial department of Shanghai Pharmaceutical (Group) Co., Ltd. from 2006 to 2010. He graduated from the Shanghai Institute of Construction Materials Industry with a bachelor's degree in Economics in July 1996, and from Chinese University of Hong Kong with a Master of Professional Accounting in December 2007.

Yu Xiao Yang, aged 59, was appointed as a Non-executive Director in May 2013. She has over 20 years of banking and investment experience. She is a founding partner of China New Enterprise Investment (CNEI) and was a founder of Victoria Capital Limited, a corporate finance advisory firm in 1998, and served as its managing partner. She was among the first mainland Chinese to embark on a professional career with major international financial institutions. She served at Paris Bank in Geneva, Dresdner Bank in Frankfurt, London and New York from 1980 to 1985, and Salomon Brothers from 1987 to 1991, working in the areas of M&A and corporate finance. She graduated from International Management Institute (Geneva), predecessor of International Institute for Management Development (IMD), with a master's degree in Business Administration in May 1982.

Independent Non-executive Directors

Zhou Zhong Hui, aged 68, was appointed as an Independent Non-executive Director on 30 May 2013. He is a member of the International Advisory Committee of the China Securities Regulatory Commission, the Audit Regulation Committee of Chinese Institution of Certified Public Accountant and the managing director of China Appraisal Society. He used to be the chief accountant of the China Securities Regulatory Commission from 2007 to 2011, a partner, the general manager and chief accountant of PricewaterhouseCoopers Zhong Tian CPAs Limited Company from 1992 to 2007 and a professor of Shanghai University of Finance and Economics from 1989 to 1998. He has been an independent non-executive director of Shanghai Oriental Pearl Media Co., Ltd. (formerly known as BesTV New Media Co., Ltd.), a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 600637) since 23 December 2011, and resigned on 4 June 2015. He has been an independent non-executive director of China Pacific Insurance (Group) Co., Ltd., a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 601601) and the Stock Exchange (Stock Code: 02601) since 31 May 2013. He has been an independent non-executive director of Juneyao Airlines Co., Ltd., a company newly listed on the Shanghai Stock Exchange (Shanghai Stock Code: 603885) since 29 June 2014. He graduated from Shanghai University of Finance and Economics with a master's degree in Economics in November 1983, and a Ph.D. in Economics in January 1993.

Lam Yiu Kin, aged 61, was appointed as an Independent Non-executive Director on 9 October 2013. He is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants of Australia and New Zealand (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). He is presently an adjunct professor in the School of Accounting and Finance of the Hong Kong Polytechnic University, and a committee member of the Hong Kong Management Association. Mr. Lam has extensive experiences in accounting, auditing and business consulting. He was a member of the Listing Committee of the Stock Exchange from 1997 to 2003, a committee member of HKICPA from 1994 to 2009, a member of the Financial Reporting Advisory Panel of the Stock Exchange from 1997 to 2003 and a partner with PricewaterhouseCoopers Hong Kong from 1993 to 2013. He graduated from Hong Kong Polytechnic University with a higher diploma in June 1975 and he was awarded the honorary fellow of Hong Kong Polytechnic University. Mr. Lam has been an independent non-executive director of Kate China Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8125) since 30 June 2014 and resigned on 17 September 2015. He has been an independent non-executive director of Vital Mobile Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 6133) since 19 September 2014. He has been an independent non-executive director of Spring Asset Management Limited, which is the manager of Spring Real Estate Investment which units are listed on the Main Board of the Stock Exchange (Stock Code: 1426) since 12 January 2015. He has been an independent non-executive director of Global Digital Creations Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8271) since 27 July 2015. He has been an independent non-executive director of Mason Financial Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 0273) since 1 August 2015. He has been an independent non-executive director of Shougang Concord Century Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 0103) since 1 August 2015. He has been an independent non-executive director of COSCO Pacific Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1199) since 14 August 2015. And he has been an independent non-executive director of Nine Dragons Paper (Holdings) Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 2689) since 3 March 2016.

Xu Qing, aged 51, has been appointed as an Independent Non-executive Director. Mr.Xu was appointed as an independent Supervisor in May 2008. He is currently a professor of Tongji Unversity Medical School, doctor-postgraduate supervisor, deputy director of the Oncology Department and Tumor Institute, and director, chief physician of Medical Oncology Department of the Tenth People's Hospital affiliated to Tongji University. And he is director of Medical Oncology Department of Shanghai Dermatology Hospital affiliated to Tongji University. He used to serve as a deputy director, a deputy chief physician, and a deputy professor of the Medical Oncology Department of Chang Zheng Hospital of The Second Military Medical University. He has been engaged in the fundamental and clinical research on tumor for a long time. He has published over 100 articles in medical journals both domestic and abroad. He did his postdoctoral research in the H.Lee. Moffitt Cancer Center of University of South Florida as a visiting scholar. He graduated from The Second Military Medical University in August 1989 with a bachelor's degree of medicine. He obtained a doctor's degree of internal medicine in August 1997.

SUPERVISORS

Zhou Xi, aged 42, has been appointed as a shareholder representative Supervisor. He is the general manager of Shanghai Fudan Asset Management Co., Ltd.（上海復旦資產經營有限公司）. He used to be the deputy secretary of youth communist league committee of Fudan University, assistant to director of the Enterprise Incubation and Equity Management Office of Fudan University, deputy director of Jiangwan campus construction office of Fudan University, vice president of School of Computer Science and Software School of Fudan University. He graduated from Fudan University in 1996 with a bachelor's degree of science. He obtained a master's degree of science in 2002 and a doctor's degree of science in 2012.

Li Ning Jian, aged 32, was appointed as a shareholder representative Supervisor on 30 May 2013. He has years of experience in venture capital and securities investment. He is currently the senior investment manager of Shanghai Pudong Science and Technology Investment Co., Ltd. He graduated from Nanjing University with a bachelor's degree in Economics and a bachelor's degree in Management. He also holds a master's degree in Science from the Hong Kong Baptist University, and a master's degree in Science from the University of Kent, United Kingdom.

Zhang Man Juan, aged 51, was appointed as an employee representative Supervisor representing employees in June 2005. She is currently the Manager of the Finance Department of the Company. She has been engaged in finance and accounting work for many years. She used to be a deputy chief of the finance department of Shanghai Huaihai Medical Factory. She graduated from China Broadcast & Television University majoring in Finance and Accounting.

Guo Yi Cheng, aged 69, was appointed as an independent Supervisor in May 2008. He had been appointed as a supervisor between June 2005 and June 2006. He used to be the head of Teaching and Research Section of Shanghai Mechanical and Electrical Party School, deputy head of Economy Department of Shanghai Municipality Government Research Office, deputy general manager of Shanghai Pharmaceutical Co., Ltd., and the director and deputy general manager of General Technology Group Pharmaceutical Holding Limited. He graduated from Economic Management College of China Central Party School and holds a researcher's qualification from Shanghai Academy of Social Sciences.

Wang Luochun, aged 46, was appointed as an employee representative Supervisor on 22 February 2016. He is the manager of biopharmaceutical drug research and development department of the Company. He joined the Company in March 1997 and has been engaged in the research and development for biopharmaceutical drugs. He graduated from Fudan University with a bachelor's degree in Biology in July 1992.

SENIOR MANAGEMENT

Li Jun, aged 47, is a cofounder of the Company. He is a deputy general manager of the Company. He has been responsible for several research projects of the Natural Science Fund, and has published numerous articles. He is a certified pharmacist. He was a teaching assistant and lecturer at Fudan University from August 1993 to November 1996, during which he also served as deputy chief technology officer of Zhejiang Shenghua Biok Biology Co. Ltd. and was involved in the research and manufacture of three new drugs. He graduated from Fudan University with a master's degree in Biology in July 1993. Mr. Li Jun has not held any directorships in listed public companies in the past three years.

Yang Xiao Lin, aged 53, joined the Company in January 2006. He is a deputy general manager of the Company. He has participated in and been in charge of several M&A projects for pharmaceutical companies. He has also been responsible for marketing and selling prescribed and OTC medicine in many sectors, and has obtained good results. He used to be the marketing director of Fosun Pharmaceutical Group from December 2001 to January 2005, and general manager of Zhejiang Kanglaite Pharmaceutical Co., Ltd. from January 2005 to January 2006. He graduated from Chinese Academy of Social Sciences with an MBA degree in 1999. Mr. Yang Xiao Lin has not held any directorships in listed public companies in the past three years.

Gan Yi Min, aged 53, joined the Company in 2010. He is a deputy general manager of the Company. He used to be the general manager of Haini Pharmaceutical Co., Ltd. (Shanghai) from 2003 to 2009, responsible for completion of construction of production workshops, laboratories and workstations, recruitment of staff and managers, and establishing a performance evaluation system. He was the production manager of Xi'an Janssen Pharmaceutical Co., Ltd. from 1995 to 2003, responsible for organizing and implementing a number of medium and large technological transformation projects. He obtained a bachelor's degree in Industrial Automation from Xi'an Technology University in December 1990, an MBA from Xi'an Jiaotong University in December 2001, an EMBA from Antwerp University (Belgium) in October 2002, and a master's degree in Pharma Engineering from Beijing Chemical Engineering University in December 2006. Mr. Gan Yi Min has not held any directorships in listed public companies in the past three years.

COMPANY SECRETARY

Xue Yan, aged 34, was appointed as company secretary in August 2010. She is also the Chief Financial Officer and an authorized representative of the Company. She is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA), a fellow of the Association of Chartered Certified Accountants (ACCA), and a member of the Chinese Institute of Certified Public Accountants (CICPA). She is qualified as a certified internal auditor. She has extensive professional experience in accounting as well as experience in corporate compliance. She graduated from Shanghai University of Finance & Economics with a bachelor's degree in International Accounting.

Independent Auditor's Report

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羅兵咸永道

To the shareholders of
Shanghai Fudan-Zhangjiang Bio-pharmaceutical Co., Ltd.
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") and its subsidiaries set out on pages 70 to 134, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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羅兵咸永道

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance 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, 18 March 2016

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
Revenue	4	**579,463**	470,900
Cost of sales	6	**(50,014)**	(36,821)
Gross profit		**529,449**	434,079
Other income	5	**72,920**	81,770
Research and development costs	6	**(110,116)**	(105,071)
Distribution and marketing costs	6	**(309,038)**	(258,025)
Administrative expenses	6	**(28,876)**	(22,650)
Other operating expenses	6	**(1,283)**	(143)
Operating profit		**153,056**	129,960
Finance costs	7	**(7,106)**	(1,861)
Profit before income tax		**145,950**	128,099
Income tax expense	10	**(18,903)**	(17,605)
Profit for the year		**127,047**	110,494
Other comprehensive income		**–**	–
Total comprehensive income for the year		**127,047**	110,494
Profit attributable to:			
Shareholders of the Company		**127,723**	118,258
Non-controlling interests		**(676)**	(7,764)
		127,047	110,494
Total comprehensive income attributable to:			
Shareholders of the Company		**127,723**	118,258
Non-controlling interests		**(676)**	(7,764)
		127,047	110,494
Basic and diluted earnings per share for profit attributable to the shareholders of the Company	13	**RMB 0.1384**	RMB 0.1281

The notes on pages 75 to 134 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2015

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
Non-current assets			
Leasehold land payments	14	**31,760**	32,550
Property, plant and equipment	15	**297,001**	285,740
Goodwill	16	**8,937**	–
Intangible assets	17	**10,373**	2,867
Deferred costs	18	**36,393**	17,131
Investment in an associate	20	**–**	–
Deferred income tax assets	21	**5,186**	3,727
Other non-current assets		**1,267**	3,011
		390,917	345,026
Current assets			
Inventories	22	**9,958**	13,983
Trade receivables	24	**132,470**	86,132
Other receivables, deposits and prepayments	25	**29,140**	16,389
Amounts due from related parties	26	**8,240**	6,854
Cash and cash equivalents	27	**445,997**	356,097
Restricted cash	27	**3,543**	–
		629,348	479,455
Total assets		**1,020,265**	824,481

Consolidated Balance Sheet

As at 31 December 2015

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
Non-current liabilities			
Deferred revenue	29	19,377	26,954
Current liabilities			
Trade payables	30	4,275	2,789
Other payables and accruals		71,970	66,210
Current income tax liabilities		12,368	7,068
Amounts due to related parties	31	3,690	3,049
Borrowings	28	125,000	25,000
Deferred revenue	29	17,745	16,992
		235,048	121,108
Total liabilities		254,425	148,062
Capital and reserves attributable to shareholders of the Company			
Share capital	32	92,300	92,300
Reserves	33	640,330	558,675
		732,630	650,975
Non-controlling interests		33,210	25,444
Total equity		765,840	676,419
Total equity and liabilities		1,020,265	824,481

The notes on pages 75 to 134 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 70 to 134 were approved by the Board of Directors on 18 March 2016 and the consolidated balance sheet was signed on its behalf by:

Wang Hai Bo
Director

Zhao Da Jun
Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
Operating activities			
Cash generated from operations	34	115,568	106,223
Interest paid		(7,129)	(1,870)
Interest received		2,919	864
Income tax paid		(15,062)	(16,858)
Net cash generated from operating activities		96,296	88,359
Investing activities			
Acquisition of subsidiaries, net of cash acquired		(22,692)	–
Purchase of property, plant and equipment		(38,250)	(44,089)
Additions to deferred costs		(10,959)	(4,602)
Purchase of intangible assets		(1,498)	(816)
Proceeds from disposal of property, plant and equipment		2,233	545
Disposal of a subsidiary, net of cash disposed		1	–
Investments in financial products		(1,767,523)	(1,411,817)
Cash received upon maturity of financial products		1,776,816	1,418,590
Net cash used in investing activities		(61,872)	(42,189)
Financing activities			
Capital contribution from non-controlling interests		11,630	–
Dividend paid to Company's shareholders		(45,854)	–
Proceeds from borrowings		185,000	–
Repayments of borrowings		(95,300)	(15,000)
Net cash generated from/(used in) financing activities		55,476	(15,000)
Net increase in cash and cash equivalents		89,900	31,170
Cash and cash equivalents at beginning of the year		356,097	324,927
Cash and cash equivalents at end of the year	27	445,997	356,097

The notes on pages 75 to 134 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Attributable to shareholders of the Company				Non-controlling interests	Total equity
	Share capital (Note 32)	Capital accumulation reserve (Note 33)	Statutory common reserve fund (Note 33)	Retained earnings (Note 33)		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2014	92,300	412,211	16,168	12,038	33,208	565,925
Profit/(loss) for the year 2014	–	–	–	118,258	(7,764)	110,494
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income/(loss) for the year 2014	–	–	–	118,258	(7,764)	110,494
Appropriation to statutory reserve	–	–	10,841	(10,841)	–	–
Balance at 31 December 2014	92,300	412,211	27,009	119,455	25,444	676,419
Profit/(loss) for the year 2015	–	–	–	127,723	(676)	127,047
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income/(loss) for the year 2015	**–**	**–**	**–**	**127,723**	**(676)**	**127,047**
Total transactions with owners, recognised directly in equity						
Acquisition of subsidiaries	**–**	**–**	**–**	**–**	**(3,106)**	**(3,106)**
Capital contribution from non-controlling interests	**–**	**82**	**–**	**–**	**11,548**	**11,630**
Final dividend for the year 2014	**–**	**–**	**–**	**(46,150)**	**–**	**(46,150)**
Total transactions with owners, recognised directly in equity	**–**	**82**	**–**	**(46,150)**	**8,442**	**(37,626)**
Appropriation to statutory reserve	**–**	**–**	**13,589**	**(13,589)**	**–**	**–**
Balance at 31 December 2015	**92,300**	**412,293**	**40,598**	**187,439**	**33,210**	**765,840**

The notes on pages 75 to 134 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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 RMB 5,295,000.

Pursuant to a series of capital injections on 10 November 1997, 11 May 2000 and 12 September 2000 from the existing or the then 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 RMB 5,295,000 to RMB 53,000,000.

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 RMB 1.00 each, were subdivided into 530,000,000 ordinary shares ("Domestic Shares") with a par value of RMB 0.10 each.

On 13 August 2002, the trading of the newly issued 198,000,000 ordinary shares ("H Shares") of RMB 0.10 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 share capital of the Company was increased to RMB 71,000,000.

On 4 February 2013, the Company completed a placing of 142,000,000 H Shares with a par value of RMB 0.10 each at a price of HKD 1.70, and the share capital of the Company was increased to RMB 85,200,000.

On 29 June 2012, the Company adopted a restricted share scheme. Pursuant to the scheme, the Company granted a total of 71,000,000 Domestic Shares as restricted shares to directors, senior management, mid-level management and key research staff of the Group on 24 June 2013 and 21 October 2013 at a price of RMB 0.51 with a par value of RMB 0.10 each. Upon completion of the grants, the share capital of the Company was increased to RMB 92,300,000.

On 16 December 2013, the Company transferred its H Shares listing from GEM to the Main Board of the Stock Exchange.

As at 31 December 2015, the Company had direct interests of 65%, 69.77%, 84.68% and 50.04% in four subsidiaries, namely Shanghai Ba Dian Medicine Co., Ltd. ("Ba Dian"), Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou Pharmaceutical"), Shanghai Tracing Bio-technology Co., Ltd. ("Tracing") and Derma Clinic Investment Co., Ltd. ("Derma Clinic"), respectively.

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

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried 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.

Changes in accounting policies and disclosures:

(a) New amendments of IFRS adopted by the Group

The following new amendments of IFRS are mandatory for the first time for the Group's financial year beginning on 1 January 2015.

IFRS 2 (Amendments)	Share-based Payment
IFRS 3 (Amendments)	Business Combinations
IFRS 8 (Amendments)	Operating Segments
IFRS 9 (Amendments)	Financial Instruments
IFRS 13 (Amendments)	Fair Value Measurement
IAS 16 (Amendments)	Property, Plant and Equipment
IAS 19 (Amendments)	Employee Benefits
IAS 24 (Amendments)	Related Party Disclosures
IAS 37 (Amendments)	Provisions, Contingent Liabilities and Contingent Assets
IAS 38 (Amendments)	Intangible Assets
IAS 39 (Amendments)	Financial Instruments: Recognition and Measurement, on novation of derivatives
IAS 40 (Amendments)	Investment Property

The adoption of the above new amendments of IFRS starting from 1 January 2015 did not have any significant impact on the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) New standards and amendments of IFRS not yet adopted

The following new standards and amendments of IFRS which are relevant to the Group's operations have been issued but are not yet effective and have not been early adopted by the Group. The Directors anticipate that adoption of these new standards and amendments will not result in substantial changes to the consolidated financial statements.

IFRS 5 (Amendments)	Non-current Assets Held for Sale and Discontinued Operations
IFRS 7 (Amendments)	Financial Instruments: Disclosures
IFRS 9	Financial Instruments
IFRS 10 (Amendments)	Consolidated Financial Statements, on applying the consolidation exception
IFRS 12 (Amendments)	Disclosures of Interests in Other Entities
IFRS 15	Revenue from Contracts with Customers
IAS 1 (Amendments)	Presentation of Financial Statements
IAS 16 (Amendments)	Property, Plant and Equipment
IAS 19 (Amendments)	Employee Benefits
IAS 34 (Amendments)	Interim Financial Reporting
IAS 38 (Amendments)	Intangible Assets

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income (Note 2.8).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

(b) Disposal of subsidiaries

When the group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Impairment testing is also carried out according to Note 2.10.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Transaction with non-controlling interests

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

2.4 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to 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 legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profit of investments accounted for using equity method" in the consolidated statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are 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.

Gain or losses on dilution of equity interest in associates are recognised in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2.6 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the consolidated statement of comprehensive income within "Finance costs".

2.7 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. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property, plant and equipment (continued)

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, 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 the end of each reporting period.

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 2.10).

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

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

2.8 Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGUs containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangible assets

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.

Separately acquired licences are shown at historical cost. Licences acquired in a business combination are recognised at fair value at the acquisition date. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. 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 balance sheet date.

2.11 Financial assets

2.11.1 Classification

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

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "Trade receivables", "Other receivables", "Amounts due from related parties" and "Cash and cash equivalents" in the balance sheet (Notes 2.14 and 2.15).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

2.11.1 Classification (continued)

(ii) Available-for-sale financial assets

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

2.11.2 Recognition and measurement

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

Changes in the fair value of monetary and non-monetary securities and financial investment products classified as available for sale are recognised in other comprehensive income.

When securities and financial investment products classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as “gains and losses from available-for-sale investments”.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing cost. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Trade and other receivables

Trade receivables are amounts due from customers for medical products, exclusive rights and technology transfer in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash and bank balances, deposits in other financial institutions and other short-term highly liquid investments with original maturities of three months or less.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Deferred revenue

Deferred revenue includes:

(i) the proportion of contract revenues received from technology transfer that is related to future performance and the proportion of income relating to the unexpired period of the government grants and exclusive rights of products granted to customers, and

(ii) the proportion of payments that is related to the expenditures to be incurred on future research and development.

For recognition of deferred revenue, refer to Notes 2.19 and 2.25.

2.19 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 consolidated statement of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as “Deferred revenue” and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the related assets.

The recognition period of government grants are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.20 Borrowings

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Also 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 nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Current and deferred income tax (continued)

(b) Deferred income tax (continued)

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability 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. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee benefit expenses

The Group entities in Mainland China participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in Mainland China and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group has no further obligation for post-retirement benefits beyond the contributions made.

The contributions are recognised as employee benefit expense when they are due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.24 Provisions

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

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(i) Sales of medical products are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed. Sales are shown net of sales taxes and discounts, and after eliminating sales within the Group.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Revenue recognition (continued)

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

(iii) Payments received under innovative pharmaceuticals research and development agreement are recognised as other income when the services are rendered, by reference to stage of completion of the specific performance requirements according to the contractual terms. Milestone payments in connection with research and development or commercialisation agreements are recognised when they are earned in accordance with the applicable performance requirements and contractual terms. Payments received that are related to future performance are deferred and recorded as revenues as they are earned over the specified future performance periods.

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

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

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

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

2.26 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Research and development (continued)

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.

2.27 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 consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.28 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.

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) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 16).

(ii) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. If the useful lives for property, plant and equipment had been 10% longer/shorter with all other variables held constant, profit before income tax would have been RMB 3,579,000 higher/lower.

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.

(iii) 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 end of the reporting period. If the provision for impairment of trade and other receivables rate had been 10% higher/lower with all other variables held constant, profit before income tax would have been RMB 74,000 lower/higher.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

(i) Impairment of investments in subsidiaries and an associate

The Group follows the guidance of IAS 36 to determine when investments in subsidiaries and an associate are impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(ii) Deferred income tax assets

Recognition of deferred income tax assets depends on the management's expectation of future taxable profit that will be available against which the deferred income tax assets can be utilised. The outcome of their actual utilisation may be different.

(iii) Research and development

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

Management will write off or write down deferred development costs when there are adverse changes in technological innovations or profit projections. Management assessed that there are no adverse changes that will cause deferred development costs as at 31 December 2015 to be written off or written down.

(iv) Government grants relating to costs

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with costs they are intended to compensate. Management determines the deferring period according to the compensated projects.

The recognition period of government grants are reviewed, and adjusted if appropriate, at the end of each reporting period.

4 REVENUE

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

	2015 RMB'000	2014 RMB'000
Sales of medical products	576,647	460,455
Exclusive rights (note (a))	833	5,000
Technology transfer revenue (note (b))	900	5,445
Others	1,083	–
	579,463	470,900

(a) In March 2011, the exclusive distribution rights of Doxorubicin Liposome products were granted to a pharmaceutical distribution company for a period from the contract effective day to 28 February 2015, at a total consideration of RMB 20,000,000, of which an amount of RMB 833,000 and RMB 5,000,000 was recognised respectively as revenue in 2015 and 2014 (Note 29).

(b) On 15 July 2014, the Company entered into a technology transfer contract with a pharmaceutical company to transfer Amphotericin B Liposome for a total consideration of RMB 6,000,000, of which RMB 1,600,000 and RMB 3,900,000 was received respectively in 2015 and 2014, and RMB 900,000 and RMB 2,400,000 was recognised respectively as revenue in 2015 and 2014 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.

On 15 July 2014, the Company entered into a technology transfer contract with a pharmaceutical company to transfer Vincristine Sulphate Liposome ("LVCR") for a total consideration of RMB 16,800,000, of which RMB 1,290,000 and RMB 6,090,000 was received respectively in 2015 and 2014. LVCR is one of the four existing drug research projects the Group cooperated with Shanghai Pharmaceuticals Holding Co., Ltd. ("SPHCL"), a shareholder of the Company (Note 5 (a)). According to the cooperation agreement, the Group and SPHCL will share equally the future benefits generated from this project. No revenue was recognised in 2015 (2014: RMB 3,045,000) as the Company did not complete any respective milestone of the transfer as specified in the contract in the year.

5 OTHER INCOME

	2015 RMB'000	2014 RMB'000
Cooperation agreement with SPHCL (note (a))	**19,508**	40,029
Government grants	**37,915**	33,173
Gains on investments in financial products (note (b))	**9,293**	6,773
Interest income	**2,919**	864
Gains on disposal of property, plant and equipment	**429**	–
Losses on disposal of a subsidiary	**(15)**	–
Others	**2,871**	931
	72,920	81,770

(a) On 23 February 2011, the Company and SPHCL signed an innovative drug research and development strategic cooperation agreement (the "Agreement") in relation to four of the existing drug research projects undertaken by the Group. According to the Agreement, SPHCL will pay 80% of the ongoing research and development ("R&D") expenses of these projects from 1 January 2011 (inclusive), and the Group and SPHCL will share equally the future benefits generated from the commercialization of these projects. In addition, SPHCL also agreed to pay 80% of the R&D expenses on these research projects prior to 1 January 2011 (the "Pre-2011 Costs") but the payments of the Pre-2011 Costs are subject to the completion of certain milestones between 2011 and 2015 as set out in the Agreement.

In 2015, the Company received total payments of RMB 15,612,000 (2014: RMB 29,893,000) from SPHCL under the Agreement, and RMB 19,508,000 (2014: RMB 40,029,000) was recognised as related service income and no balance of deferred revenue as at 31 December 2015 was recognised (2014: RMB 381,000) (Note 29).

(b) The gains represented the gains on investments in financial products upon maturity.

6 EXPENSES BY NATURE

	2015 RMB'000	2014 RMB'000
Amortisation of leasehold land payments (Note 14)	790	790
Amortisation of intangible assets (included in 'Administrative expenses') (Note 17)	734	276
Amortisation of deferred costs (included in 'Cost of sales') (Note 18)	716	1,395
Auditors' remuneration		
– Audit services	2,118	1,890
– Non-audit services	16	8
Provision for impairment of trade receivables (Note 24)	442	–
Provision for impairment of inventories (Note 22)	258	1,474
Provision for impairment of other receivables, deposits and prepayments	59	–
Changes in inventories of finished goods and work in progress	5,453	635
Raw materials and consumables used	30,273	30,763
Depreciation of property, plant and equipment (Note 15)	35,793	27,254
Less: Amounts capitalised in deferred costs	(9,019)	(3,927)
	26,774	23,327
Losses on disposal of property, plant and equipment	557	51
Operating lease rentals in respect of land and buildings	1,153	1,145
Research and development costs, excluding employee benefit expenses	19,713	22,459
Employee benefit expenses (Note 8)	83,534	70,510
Less: Amounts capitalised in deferred costs	(2,883)	(2,399)
	80,651	68,111
Marketing and sales promotion expenses	267,929	223,597
Post-marketing study expenses	35,409	25,140
Quality inspection expenses	7,194	6,918
Others	19,088	14,731
Total cost of sales, research and development costs, distribution and marketing costs, administrative expenses and other operating expenses	499,327	422,710

7 FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest expenses on bank borrowings	**7,129**	1,870
Net foreign exchange gains on financing activities	**(23)**	(9)
	7,106	1,861

8 EMPLOYEE BENEFIT EXPENSES

	2015 RMB'000	2014 RMB'000
Wages and salaries	**62,855**	54,131
Housing subsidies	**4,713**	3,954
Social security costs	**5,490**	4,463
Retirement benefit costs (Note 9)	**10,476**	7,962
Employee benefit expenses including directors', supervisors' and senior managements' emoluments	**83,534**	70,510

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2015 include three (2014: three) directors whose emoluments are reflected in the analysis shown in Note 42. The emoluments payable to the remaining two (2014: two) individuals for the year ended 31 December 2015 and 2014 are as follows:

	2015 RMB'000	2014 RMB'000
Basic salaries and allowances	**1,488**	1,374
Bonus	**1,000**	1,100
Retirement benefit costs	**94**	92
Social security costs	**80**	76
	2,662	2,642

8 EMPLOYEE BENEFIT EXPENSES (continued)

(a) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	2015	2014
Emolument bands (in HK dollar)		
HKD 1,500,000 – HKD 2,000,000	2	2

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 21% 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 RMB 10,476,000 and RMB 7,962,000 for the years ended 31 December 2015 and 31 December 2014, respectively.

10 INCOME TAX EXPENSE

	2015 RMB'000	2014 RMB'000
Current income tax	20,362	14,949
Deferred income tax (Note 21)	(1,459)	2,656
	18,903	17,605

Effective from 1 January 2008, the Company and its subsidiaries are required to determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") as approved by the National People's Congress on 16 March 2007. The Company was recognised as a high-tech enterprise, and the applicable tax rate of the Company is 15% in 2015 (2014: 15%). The applicable tax rates of the subsidiaries are 25% in 2015 (2014: 25%).

10 INCOME TAX EXPENSE (continued)

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

	2015 **RMB'000**	2014 RMB'000
Profit before income tax	**145,950**	128,099
Tax calculated at the applicable tax rate of 25%	**36,488**	32,025
Effect of tax rate reduction	**(15,509)**	(13,399)
Tax losses not recognised as deferred tax assets	**2,615**	1,482
Additional deduction of research and development expenditures	**(5,596)**	(5,078)
Expenses not deductible for income tax purposes	**233**	150
Differences of prior year income tax annual filing	**(106)**	(680)
Effect of unrealised profits on intra-group transactions	**2,449**	5,367
Utilisation of previously unrecognised tax losses	**(1,671)**	(2,262)
Tax charge	**18,903**	17,605

11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB 135,889,000 (2014: RMB 108,408,000).

12 DIVIDEND

No interim dividend was declared by the Company in 2015 (2014: Nil).

On 18 March 2016, the Board of Directors recommended the payment of a final dividend of RMB 0.03 (2014: RMB 0.05) per ordinary share, totalling RMB 27,690,000 (2014: RMB 46,150,000) for the year ended 31 December 2015. The proposed final dividend in respect of the year ended 31 December 2015 is calculated based on the total number of shares in issue. The payment of the proposed final dividend is to be approved by the shareholders at the Company's forthcoming Annual General Meeting. The financial statements do not reflect this as dividend payable.

	2015 **RMB'000**	2014 RMB'000
Proposed final dividend of RMB 0.03 (2014: RMB 0.05) per ordinary share	**27,690**	46,150

13 EARNINGS PER SHARE

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

	2015	2014
Profit attributable to shareholders of the Company (RMB'000)	**127,723**	118,258
Weighted average number of ordinary shares in issue ('000)	**923,000**	923,000
Basic earnings per share (RMB)	**0.1384**	0.1281

There is no difference between the basic and diluted earnings per share for the years ended 31 December 2015 and 2014 as there were no dilutive potential ordinary shares during the years then ended.

14 LEASEHOLD LAND PAYMENTS

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.

	2015 RMB'000	2014 RMB'000
Net book value at beginning of the year	**32,550**	33,340
Amortisation	**(790)**	(790)
Net book value at end of the year	**31,760**	32,550

The original lease terms of the land use rights of the Group held in the PRC are from 47 to 50 years, and the remaining lease periods are from 36 to 40 years.

15 PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery RMB'000	Furniture, fixtures and computer equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost					
At 1 January 2014	300,685	5,985	2,353	8,773	317,796
Additions	28,773	1,202	18	18,865	48,858
Transfer upon completion	20,326	23	–	(20,349)	–
Disposals	(1,000)	(268)	–	–	(1,268)
At 31 December 2014	348,784	6,942	2,371	7,289	365,386
Acquisition of subsidiaries	12,480	233	375	156	13,244
Additions	32,161	425	765	2,825	36,176
Transfer upon completion	10,214	–	–	(10,214)	–
Disposals	(10,319)	(316)	(114)	–	(10,749)
At 31 December 2015	**393,320**	**7,284**	**3,397**	**56**	**404,057**
Accumulated depreciation					
At 1 January 2014	49,953	2,388	723	–	53,064
Charge for the year	25,902	1,027	325	–	27,254
Disposals	(434)	(238)	–	–	(672)
At 31 December 2014	75,421	3,177	1,048	–	79,646
Charge for the year	34,242	1,174	377	–	35,793
Disposals	(8,055)	(294)	(34)	–	(8,383)
At 31 December 2015	**101,608**	**4,057**	**1,391**	**–**	**107,056**
Net book value					
At 31 December 2015	**291,712**	**3,227**	**2,006**	**56**	**297,001**
At 31 December 2014	273,363	3,765	1,323	7,289	285,740

15 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation of property, plant and equipment has been charged to the consolidated statement of comprehensive income and capitalised in the consolidated balance sheet as follows:

	2015 RMB'000	2014 RMB'000
Cost of sales	10,965	7,688
Research and development expenses	5,888	8,427
Distribution and marketing expenses	6,021	5,091
Administrative expenses	3,900	2,121
	26,774	23,327
Deferred costs	9,019	3,927
	35,793	27,254

16 GOODWILL

	2015 RMB'000
Cost	
At 31 December 2014	–
Additions	8,937
At 31 December 2015	8,937
Accumulated impairment	
At 31 December 2015 and 2014	–
Net book value	
At 31 December 2015	8,937

16 GOODWILL (continued)

The goodwill is monitored by the management at CGUs level. The following is a summary of goodwill allocation for each operating segment:

	2015 RMB'000
Food diagnostic reagent (Note 35)	**8,937**

For the purposes of impairment test, goodwill has been allocated to the smallest individual of CGUs identified. The recoverable amount of a CGUs is determined based on value-in-use calculations. The calculation uses cash flow projections based on financial budget made by the Directors, with reference to the prevailing market conditions, covering certain future period ("Period"). Cash flows beyond the Period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations in 2015 are as follows:

	Food diagnostic reagent
Sales growth rate	20%
Gross profit margin	30%
Pre-tax discount rate	16%
Growth rate to extrapolate cash flows beyond the budget period	0%

Based on management's assessment, there was no impairment of goodwill as at 31 December 2015.

17 INTANGIBLE ASSETS

	Acquired technical know-how RMB'000	Acquired Licence RMB'000	Total RMB'000
Cost			
At 1 January 2014	5,283	–	5,283
Additions	1,044	–	1,044
At 31 December 2014	6,327	–	6,327
Acquisition of subsidiaries (Note 35 and note (a))	3,351	3,391	6,742
Additions	1,498	–	1,498
At 31 December 2015	**11,176**	**3,391**	**14,567**
Accumulated amortisation			
At 1 January 2014	3,184	–	3,184
Charge for the year	276	–	276
At 31 December 2014	3,460	–	3,460
Charge for the year	734	–	734
At 31 December 2015	**4,194**	**–**	**4,194**
Net book value			
At 31 December 2015	**6,982**	**3,391**	**10,373**
At 31 December 2014	2,867	–	2,867

(a) The licence is a healthcare clinic licence which came with the acquisition of Beijing Youhao-Chuangjia Investment Co., Ltd. ("Youhao-Chuangjia") by Derma Clinic on 30 September 2015.

As at 31 December 2015 and 2014, the management did not identify the impairment indication of intangible assets.

18 DEFERRED COSTS

	Deferred development costs RMB'000	Deferred costs of exclusive rights RMB'000	Total RMB'000
Cost			
At 1 January 2014	15,543	1,315	16,858
Capitalisation of costs	8,529	–	8,529
At 31 December 2014	24,072	1,315	25,387
Capitalisation of costs	19,978	–	19,978
At 31 December 2015	**44,050**	**1,315**	**45,365**
Accumulated amortisation			
At 1 January 2014	5,844	1,017	6,861
Charge for the year	1,140	255	1,395
At 31 December 2014	6,984	1,272	8,256
Charge for the year	673	43	716
At 31 December 2015	**7,657**	**1,315**	**8,972**
Net book value			
At 31 December 2015	**36,393**	**–**	**36,393**
At 31 December 2014	17,088	43	17,131

19 SUBSIDIARIES

On 9 January 2015, the Company acquired 90% equity of Shanghai Youni Bio-tech Co., Ltd. ("Youni") (Note 35), which were subsequently merged with and absorbed into Tracing on 30 September 2015. Subsequent to the merger, the Group's interest in Tracing increased to 84.68%.

On 27 July 2015, the Company established Derma Clinic with other investors and holds its 50.04% equity interest. On 30 September 2015, Derma Clinic completed the acquisition of 100% equity of Youhao-Chuangjia.

19 SUBSIDIARIES (continued)

On 11 September 2015, the Company sold its wholly-owned subsidiary, namely Shanghai Morgan-Tan International Center for Life Sciences Co., Ltd. ("Morgan-Tan") to a third party.

As at 31 December 2015, the Company held the following investments in unlisted subsidiaries which are all limited liability companies:

Name	Place of incorporation, kind of legal entity and date of establishment	Registered capital	Attributable equity interest %	Direct or Indirect	Principal activities and place of operation
Shanghai Ba Dian Medicine Co., Ltd. (上海靶點藥物有限公司)	PRC Limited liability company 4 June 2003	RMB 15,000,000	65.00	Direct	Development of biological and medical technology, the provision of related R&D services and the sale of intermediary products in the PRC
Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. (泰州復旦張江藥業有限公司)	PRC Limited liability company 13 March 2007	RMB 86,000,000	69.77	Direct	R&D of pharmaceutical projects and medical instruments and provision of related services in the PRC
Shanghai Tracing Bio-technology Co., Ltd. (上海溯源生物技術有限公司)	PRC Limited liability company 5 November 2012	RMB 24,800,000	84.68	Direct	R&D of medical diagnostic products, provision of related technical service and sales of general merchandise in the PRC
Derma Clinic Investment Co., Ltd. (德美診聯醫療投資管理有限公司)	PRC Limited liability company 27 July 2015	RMB 50,000,000	50.04	Direct	Medical investment management, health industry management, projects investment, assets management, investment and business consultation, medical and enterprise management consultation in the PRC
Beijing Youhao-Chuangjia Investment Co., Ltd. (北京友好創嘉投資管理有限公司)	PRC Limited liability company 29 March 2012	RMB 2,100,000	100.00	Indirect	Medical investment management and provision of general healthcare services in the PRC

The English names of the subsidiaries are translation made by management of the Company as they do not have official English names.

The Group does not have any subsidiary with material non-controlling interests.

20 INVESTMENT IN AN ASSOCIATE

	2015 RMB'000	2014 RMB'000
Unlisted equity investments, original cost		
At beginning and end of the year	**7,200**	7,200
Accumulated share of results		
At beginning and end of the year	**(6,867)**	(6,867)
Impairment charge		
At beginning and end of the year	**(333)**	(333)
Net book value		
At end of the year	**–**	–

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

Name	Country and date of establishment	Registered capital	Attributable equity interest %	Principal activities and place of operation
Shanghai Lead Discovery Limited Company ("Lead Discovery")	PRC 27 November 2002	RMB 20,400,000	35	High throughput screening of new drugs, R&D of "me-too" and natural drug technologies in the PRC

This associate is unlisted and immaterial to the Group.

21 DEFERRED INCOME TAX ASSETS

	2015 RMB'000	2014 RMB'000
Deferred tax assets:		
– Deferred tax assets to be recovered after more than one year	217	212
– Deferred tax assets to be recovered within one year	4,969	3,515
	5,186	3,727
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than one year	–	–
– Deferred tax liabilities to be settled within one year	–	–
	–	–
Deferred tax assets (net)	5,186	3,727

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

	2015 RMB'000	2014 RMB'000
At beginning of the year	3,727	6,383
Credited/(Charged) to income tax expense (Note 10)	1,459	(2,656)
At end of the year	5,186	3,727

A potential deferred income tax asset, which represents mainly temporary difference arising from tax losses carried forward and unrealised profits on intra-group transactions, has not been recognised in the consolidated financial statements as, in the opinion of the Directors, it is uncertain that such asset will be realised in the foreseeable future except Tracing, which has made profits from 2015 and recognised its tax loss as deferred tax assets accordingly. The tax losses and unrealised profits not recognised by the Group amounted to RMB 129,807,000 and RMB 126,656,000 as at 31 December 2015 and 31 December 2014 respectively. The tax losses will expire within five years from the respective balance sheet date and it is expected that the Group will not be able to utilise them to offset against future taxable profits before they expire. It is uncertain whether or not the unrealised profits on intra-group transactions will become realised, hence it is expected that the Group will not be able to utilise the respective tax deduction in the foreseeable future.

21 DEFERRED INCOME TAX ASSETS (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 RMB'000
At 1 January 2014	(66)
Credited to income tax expense	66
At 31 December 2014 and 2015	**–**

Deferred income tax assets (on gross basis)

	Accruals RMB'000	**Provisions RMB'000**	**Tax losses RMB'000**	**Total RMB'000**
At 1 January 2014	6,154	295	–	6,449
Charged to income tax expense	(2,639)	(83)	–	(2,722)
At 31 December 2014	3,515	212	–	3,727
Credited to income tax expense	1,231	5	223	1,459
At 31 December 2015	**4,746**	**217**	**223**	**5,186**

22 INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	**5,692**	4,490
Production supplies and consumables	**643**	417
Work in progress	**674**	7,237
Finished goods	**2,949**	1,839
	9,958	13,983

The cost of inventories recognised as expense and included in "Cost of sales" amounted to RMB 40,195,000 (2014: RMB 34,671,000).

As at 31 December 2015, there was no impairment provision for inventories (2014: RMB 99,000). During the year, a provision of RMB 258,000 was made to inventories (2014: RMB 1,474,000) and the provision of RMB 357,000 was written off against the related inventory balances (2014: RMB 1,474,000).

23 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables	
	2015 RMB'000	2014 RMB'000
Assets as per balance sheet		
Trade receivables, other receivables and deposits	**139,346**	92,321
Amounts due from related parties	**8,240**	6,854
Cash and cash equivalents	**445,997**	356,097
	593,583	455,272

23 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Financial liabilities at amortised cost	
	2015	2014
	RMB'000	RMB'000
Liabilities as per balance sheet		
Borrowings	**125,000**	25,000
Trade payables, other payables and accruals excluding non-financial liabilities	**40,584**	33,217
Amounts due to related parties	**3,690**	3,049
	169,274	61,266

24 TRADE RECEIVABLES

	2015	2014
	RMB'000	RMB'000
Accounts receivable (note (a))	**93,904**	72,604
Less: Provision for impairment	**(1,382)**	(1,174)
Accounts receivable – net	**92,522**	71,430
Notes receivable (note (b))	**39,948**	14,702
	132,470	86,132

As at 31 December 2015 and 2014, the fair value of the trade receivables approximated their carrying amounts, which are all denominated in RMB.

24 TRADE RECEIVABLES (continued)

(a) Accounts receivable are arisen from sales of products, with no interest charged. The credit period granted to customers is between 1 to 4 months. The ageing analysis of accounts receivable based on invoice date, before provision for impairment as at 31 December 2015 and 2014, are as follows:

	2015 RMB'000	2014 RMB'000
Accounts receivable – gross		
– Within credit terms	69,174	56,320
– Past due within 30 days	24,078	11,231
– Past due over 30 days and within 60 days	336	641
– Past due over 60 days and within 90 days	245	238
– Past due over 90 days and within one year	7	3,390
– Past due over one year	64	784
	93,904	72,604

As at 31 December 2015, accounts receivable of RMB 24,730,000 (2014: RMB 16,284,000) were impaired and adequately provided for. The amount of provision was RMB 1,382,000 (2014: RMB 1,174,000). As at 31 December 2015 and 2014, the accounts receivable ageing over one year were fully provided for.

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

	2015 RMB'000	2014 RMB'000
At beginning of the year	1,174	1,756
Additions arising from acquisition of subsidiaries	488	–
Accrual/(Reversal) of provision for impairment of receivables	442	(573)
Receivables written off during the year as uncollectable	(722)	(9)
At end of the year	1,382	1,174

Amounts charged to the provision account are generally written off against the receivable balances when there is no expectation of recovering additional cash.

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

24 TRADE RECEIVABLES (continued)

(b) Notes receivable are arisen from sales of products, with no interest and guarantee. They are all bank acceptance notes with maturities less than six months.

25 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2015 RMB'000	2014 RMB'000
Value-added tax recoverable	8,269	8,528
Prepayments	13,995	1,674
Advances to employees	2,996	4,592
Deposits	391	198
Others	3,489	1,397
	29,140	16,389

26 AMOUNTS DUE FROM RELATED PARTIES

The balances represent trade balances due from SPHCL and Shanghai Pharmaceutical Distribution Co., Ltd. ("SPDCL"), a subsidiary of SPHCL, which are unsecured, interest free and repayable on demand.

27 CASH AND BANK BALANCES

(i) Cash and cash equivalents

	2015 RMB'000	2014 RMB'000
Cash at bank and on hand	445,997	348,502
Deposits in other financial institutions (note (a))	–	7,595
	445,997	356,097
Cash and bank balances denominated in		
– RMB ('000)	445,977	355,723
– HKD ('000)	20	374
	445,997	356,097

27 CASH AND BANK BALANCES (continued)

(i) Cash and cash equivalents (continued)

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

The effective interest rate on cash placed with banks and deposits in other financial institutions is 0.35%-5.00% per annum as at 31 December 2015 (2014: 0.35%-4.50%).

(ii) Restricted cash

As at 31 December 2015, RMB 3,543,000 are restricted deposits held at bank as guarantee for pending litigation of Taizhou Pharmaceutical.

28 BORROWINGS

	2015 RMB'000	2014 RMB'000
Non-current		
Long-term bank borrowings, unsecured (note (a))	–	25,000
Less: Current portion	–	(25,000)
	–	–
Current		
Short-term bank borrowings, unsecured (note (b))	95,000	–
Short-term bank borrowings, secured (note (c))	30,000	–
Current portion of long-term bank borrowings, unsecured (note (a))	–	25,000
	125,000	25,000

(a) As at 31 December 2014, the long-term bank borrowing of RMB 25,000,000, which was guaranteed by the Company, bore an annual interest rate based on the market rate published by People's Bank of China (As at 31 December 2014: 6.00%) and was due for repayment on 20 March 2015. The borrowing was repaid on 20 March 2015.

28 BORROWINGS (continued)

(b) As at 31 December 2015, the unsecured short-term bank borrowings of RMB 70,000,000 was taken by the Company, bore an annual interest rate based on the market rate published by People's Bank of China (As at 31 December 2015: 4.35%) and was due for repayment on 16 February 2016.

As at 31 December 2015, the unsecured short-term bank borrowings of RMB 25,000,000 was taken by Taizhou Pharmaceutical and bore an annual interest rate of 6.1525%. The borrowing was guaranteed by the Company and was due for repayment on 15 March 2016.

(c) As at 31 December 2015, the secured short-term bank borrowings of RMB 30,000,000 was taken by the Company and bore an annual interest rate of 4.85%. The borrowing was mortgaged by the Company's seven intellectual properties and was due for repayment on 18 August 2016.

The fair value of current borrowing equals its carrying amount, as the impact of discounting is not significant.

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing date or maturity date which is earlier are as follows:

	2015 RMB'000	2014 RMB'000
Within one year	**125,000**	25,000

As at 31 December 2015 and 2014, the Group's borrowings were repayable as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	**125,000**	25,000

29 DEFERRED REVENUE

	2015 RMB'000	2014 RMB'000
Government grants	**34,277**	42,732
Exclusive rights	**–**	833
Cooperation Agreement with SPHCL (Note 5(a))	**–**	381
Technology transfer (Note 4(b))	**2,845**	–
	37,122	43,946
Less: Amount to be realised within one year	**(17,745)**	(16,992)
	19,377	26,954

	Government grants RMB'000	Exclusive rights (Note 4) RMB'000	Cooperation Agreement with SPHCL RMB'000	Technology transfer RMB'000	Total RMB'000
At 1 January 2014	40,962	5,833	10,517	–	57,312
Additions	34,135	–	29,893	–	64,028
Transfer to income	(32,365)	(5,000)	(40,029)	–	(77,394)
At 31 December 2014	42,732	833	381	–	43,946
Additions	21,875	–	–	3,745	25,620
Transfer to income	(30,330)	(833)	(381)	(900)	(32,444)
At 31 December 2015	**34,277**	**–**	**–**	**2,845**	**37,122**

30 TRADE PAYABLES

	2015 RMB'000	2014 RMB'000
Accounts payable (note (a))	**4,275**	2,789

As at 31 December 2015 and 2014, all trade payables of the Group were non-interest bearing, and their fair value approximated their carrying amounts due to their short maturities.

All the Group's trade payables are denominated in RMB.

(a) As at 31 December 2015 and 2014, the ageing analysis of accounts payable based on invoice date are as follows:

	2015 RMB'000	2014 RMB'000
– Within 30 days	**3,891**	2,509
– 31 days to 60 days	**156**	31
– 61 days to 90 days	**–**	–
– Over 90 days but less than one year	**–**	18
– Over one year	**228**	231
	4,275	2,789

31 AMOUNTS DUE TO RELATED PARTIES

The balances represent trade balances due to SPHCL and SPDCL, which are unsecured, interest free and repayable on demand.

32 SHARE CAPITAL

Authorised, issued and fully paid:

	Number of shares '000	Amount RMB'000
At 31 December 2014 and 31 December 2015	**923,000**	**92,300**

33 RESERVES

	Capital accumulation reserve (note (a)) RMB'000	Statutory common reserve fund (note (b)) RMB'000	Retained earnings (note (c)) RMB'000	Total RMB'000
At 1 January 2014	412,211	16,168	12,038	440,417
Profit for the year 2014	–	–	118,258	118,258
Appropriation to statutory reserve	–	10,841	(10,841)	–
At 31 December 2014	412,211	27,009	119,455	558,675
Profit for the year 2015	**–**	**–**	**127,723**	**127,723**
Share of excess capital contribution from non-controlling interests	**82**	**–**	**–**	**82**
Final dividend for the year 2014	**–**	**–**	**(46,150)**	**(46,150)**
Appropriation to statutory reserve	**–**	**13,589**	**(13,589)**	**–**
At 31 December 2015	**412,293**	**40,598**	**187,439**	**640,330**

(a) Capital accumulation reserve includes share premium arising from the issue of shares at a price in excess of their par value and the effect for transactions with non-controlling interests on changes in equity attributable to the shareholders of the Company. 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 convert its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital.

(c) In accordance with the Company's Articles of Association, the Company declares dividends based on the lower of retained earnings as reported in accordance with the PRC accounting regulations and that reported in accordance with IFRS. According to the statutory financial statements prepared in accordance with the PRC accounting regulations and the financial statements prepared in accordance with IFRS, the amount of distributable reserve was RMB 293,766,000 as at 31 December 2015 (2014: RMB 217,616,000) (Note 41).

34 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before income tax to cash generated from operations

	2015 RMB'000	2014 RMB'000
Profit before income tax	145,950	128,099
Adjustments for:		
Amortisation of leasehold land payments (Note 6)	790	790
Amortisation of intangible assets (Note 17)	734	276
Amortisation of deferred costs (Note 18)	716	1,395
Provision for impairment of inventories (Note 22)	258	1,474
Accrual/(Reversal) of provision for impairment of receivables (Note 24)	442	(573)
Provision for impairment of other receivables, deposits and prepayments	59	–
Depreciation of property, plant and equipment (Note 15)	26,774	23,327
Gains from available-for-sale investments (Note 5)	(9,293)	(6,773)
Losses on disposal of a subsidiary (Note 5)	15	–
Losses on disposal of property, plant and equipment – net (Note 5 and Note 6)	128	51
Interest expenses (Note 7)	7,129	1,870
Interest income (Note 5)	(2,919)	(864)
Changes in working capital:		
– Trade and other receivables and amounts due from related parties	(53,522)	(19,586)
– Inventories	5,612	111
– Trade and other payables and amounts due to related parties	(481)	(10,008)
– Deferred revenue	(6,824)	(13,366)
Cash generated from operations	115,568	106,223

35 BUSINESS COMBINATIONS

(i) Acquisition for 90% equity interest in Youni

On 9 January 2015, the Company acquired 90% of the total equity in Youni, a company which is a manufacturer and distributor of food diagnostic reagent, at a consideration of RMB 22,500,000. The acquisition is expected to help the Company further integrate the original in-vitro diagnostic reagent platform of Tracing, which in turn will lay a foundation for expanding the business of the Group to large diagnostic reagent sector, and the acquisition is also in line with the industry distribution and development trend of the diagnostics business of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The goodwill of RMB 8,937,000 arose from a number of factors including expected synergies through combining a highly skilled workforce and obtaining greater production efficiencies through knowledge transfer; obtaining economies of scale by cost reductions from purchasing efficiencies, price reductions and greater volume rebates from suppliers; and unrecognised assets such as the workforce.

The following table summarises the consideration paid for Youni and the recognised amounts of the assets acquired and liabilities assumed at the acquisition date.

	9 January 2015 RMB'000
Purchase consideration	
– Cash paid	22,500
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	940
Investment in an associate	4,615
Property, plant and equipment	13,240
Intangible assets	3,337
Inventories	1,805
Trade receivables	5,588
Other receivables, deposits and prepayments	764
Trade payables	(4,049)
Other payables and accruals	(870)
Borrowings	(10,300)
Total identifiable net assets	15,070
Non-controlling interests	(1,507)
Goodwill	8,937
	22,500

35 BUSINESS COMBINATIONS (continued)

(i) Acquisition for 90% equity interest in Youni (continued)

	9 January 2015 RMB'000
Acquisition-related costs (included in administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2015)	28
Outflow of cash to acquire business, net of cash acquired	
– cash consideration	22,500
– cash and cash equivalents in subsidiary acquired	(940)
Net cash outflow on acquisition	21,560

(ii) Acquisition for 100% equity interest in Youhao-Chuangjia

On 30 September 2015, Derma Clinic, a subsidiary of the Company acquired 100% of the total equity in Youhao-Chuangjia, a company which provides general healthcare services, at a consideration of RMB 1,500,000.

No goodwill arose from the business combination.

35 BUSINESS COMBINATIONS (continued)

(ii) Acquisition for 100% equity interest in Youhao-Chuangjia (continued)

The following table summarises the consideration paid for Youhao-Chuangjia and the recognised amounts of the assets acquired and liabilities assumed at the acquisition date.

	30 September 2015 RMB'000
Purchase consideration	
– Cash paid	1,500
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	368
Property, plant and equipment	4
Intangible assets	3,405
Inventories	42
Other receivables, deposits and prepayments	1,102
Other payables and accruals	(3,421)
Total identifiable net assets	1,500
Non-controlling interests	–
Goodwill	–
	1,500
Acquisition-related costs (included in administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2015)	6
Outflow of cash to acquire business, net of cash acquired	
– cash consideration	1,500
– cash and cash equivalents in subsidiary acquired	(368)
Net cash outflow on acquisition	1,132

36 RELATED PARTY TRANSACTIONS

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2015 and 2014.

(i) Transactions

	2015 RMB'000	2014 RMB'000
With SPDCL:		
Sales of medical products	12,303	17,575
With SPHCL:		
Cash received under the Cooperation Agreement (Note 5 (a))	15,612	29,893

Products are sold and services are provided based on the price lists in force and terms that would be available to third parties.

(ii) The related party balances as at 31 December 2015 and 31 December 2014 are disclosed in Note 26 and Note 31.

(iii) Key management compensation:

Key management includes executive directors, the Company secretary and other senior management. The compensation paid or payable to key management for employee services is shown below:

	2015 RMB'000	2014 RMB'000
Basic salaries and allowances	5,390	5,015
Bonus	3,770	4,050
Retirement benefit and social security costs	528	507
	9,688	9,572

37 SEGMENT INFORMATION

The single operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors that make strategic decisions.

In recent years, the Group has been focusing on the commercialization of its own drugs after research and development. The outcomes of the Group's research and development activities will be given preference to be used by the Group for its own commercialization. As a result of such strategic shift in its business focus, the Group only received and recognised RMB 5,445,000 and RMB 900,000 as the revenue generated from technology transfer in 2014 and 2015 respectively. Accordingly, the management considers that the Group only operates a single business segment and hence no segment information is presented.

The Company and all its subsidiaries operate in the PRC and the Group's revenue is principally derived in the PRC.

Revenues of approximately RMB 327,480,000 (2014: RMB 269,172,000) are derived from a single external customer. These revenues are attributable to the sales of medical products.

38 COMMITMENTS

(i) Operating lease commitments

As at 31 December 2015 and 2014, the Group had future aggregate minimum lease payments due under non-cancellable operating leases in respect of properties as follows:

	2015 RMB'000	2014 RMB'000
No later than 1 year	1,610	557
Later than 1 year and no later than 5 years	4,146	148
Later than 5 years	2,339	–
	8,095	705

(ii) Capital expenditure commitments

Capital expenditure contracted for as at 31 December 2015 and 2014 but not yet incurred by the Group are as follows:

	2015 RMB'000	2014 RMB'000
Property, plant and equipment	3,709	2,098

39 FINANCIAL RISK MANAGEMENT

(i) Financial risk factors

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

(a) Market risk

(1) Foreign exchange risk

The Group operates mainly in domestic market and is considered not to expose to any significant foreign exchange risks in the years ended 31 December 2015 and 31 December 2014.

(2) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets and liabilities, except for cash placed with banks and other financial institutions (Note 27) and bank borrowings (Note 28).

The Group's interest rate risk arises from bank borrowings. Bank borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash placed with banks and other financial institutions. Bank borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 28.

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

As at 31 December 2015, if interest rates on borrowings had been 10% higher/lower with all other variables held constant, profit before income tax for the year would have been RMB 344,000 (2014: 10%, RMB 187,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

39 FINANCIAL RISK MANAGEMENT (continued)

(i) Financial risk factors (continued)

(b) Credit risk

The carrying amount of cash at bank and on hand, trade receivables, amounts due from related parties and other receivables and deposits represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of deposits and cash were placed in the Big Four State-owned banks* and other listed banks without significant credit risk.

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

*Big Four State-owned banks: Bank of China, Industrial and Commercial Bank of China, China Construction Bank and Agricultural Bank of China.

(c) Liquidity risk

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

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

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

39 FINANCIAL RISK MANAGEMENT (continued)

(i) Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
At 31 December 2015					
Bank borrowings	126,629	–	–	–	126,629
Trade and other payables	44,274	–	–	–	44,274
At 31 December 2014					
Bank borrowings	25,375	–	–	–	25,375
Trade and other payables	36,266	–	–	–	36,266

(ii) Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank borrowings and loans from government authorities) less cash and cash equivalents. Total capital is calculated as "total equity", as shown in the consolidated balance sheet, plus net debt. As at 31 December 2015 and 2014, cash and cash equivalents is much more than total borrowings of the Group, therefore, the gearing ratio is not applicable.

(iii) Fair value estimation

The carrying amounts of the Group's cash and bank balances, restricted cash, trade receivables, amounts due from related parties, other receivables, deposits and prepayments, trade payables, amounts due to related parties and other payables and accruals approximate their fair values because of the short maturity of these instruments. Fair value of the borrowings is disclosed in Note 28.

40 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 18 March 2016.

41 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Non-current assets		
Leasehold land payments	**3,755**	3,861
Property, plant and equipment	**132,865**	127,132
Intangible assets	**37,525**	25,592
Deferred costs	**–**	43
Investments in subsidiaries	**100,920**	70,863
Deferred income tax assets	**6,275**	5,113
Other non-current assets	**772**	2,352
	282,112	234,956
Current assets		
Inventories	**4,202**	10,897
Trade receivables	**129,008**	85,504
Other receivables, deposits and prepayments	**16,296**	7,069
Amounts due from related parties	**8,240**	6,854
Amounts due from subsidiaries	**105,220**	66,856
Cash and cash equivalents	**417,489**	333,587
	680,455	510,767
Total assets	**962,567**	745,723

41 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (continued)

Balance sheet of the Company (continued)

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Non-current liabilities		
Deferred revenue	**3,158**	8,221
Current liabilities		
Trade payables	**2,867**	2,123
Other payables and accruals	**68,484**	62,822
Current income tax liabilities	**12,368**	7,068
Amounts due to related parties	**3,690**	3,045
Amounts due to subsidiaries	**15,070**	269
Borrowings	**100,000**	–
Deferred revenue	**14,281**	9,265
	216,760	84,592
Total liabilities	**219,918**	92,813
Capital and reserves attributable to shareholders of the Company		
Share capital	**92,300**	92,300
Reserves (note (a))	**650,349**	560,610
Total equity	**742,649**	652,910
Total equity and liabilities	**962,567**	745,723

The balance sheet of the Company was approved by the Board of Directors on 18 March 2016 and was signed on its behalf by:

Wang Hai Bo
Director

Zhao Da Jun
Director

41 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (continued)

note (a) Reserve movement of the Company

	Capital accumulation reserve RMB'000	Statutory common reserve fund RMB'000	Retained earnings RMB'000
At 1 January 2014	315,985	16,168	120,049
Profit for the year	–	–	108,408
Appropriation to statutory reserve	–	10,841	(10,841)
At 31 December 2014	315,985	27,009	217,616
At 1 January 2015	**315,985**	**27,009**	**217,616**
Profit for the year	**–**	**–**	**135,889**
Final dividend for the year 2014	**–**	**–**	**(46,150)**
Appropriation to statutory reserve	**–**	**13,589**	**(13,589)**
At 31 December 2015	**315,985**	**40,598**	**293,766**

42 EMOLUMENTS OF DIRECTORS AND SUPERVISORS

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

	2015 RMB'000	2014 RMB'000
Basic salaries and allowances	**2,651**	2,496
Bonus	**1,950**	2,100
Fees	**123**	156
Retirement benefit costs	**126**	123
Social security costs	**100**	93
	4,950	4,968

RMB 364,000 of fees were paid or payable to the independent non-executive directors for the year (2014: RMB 320,000).

42 EMOLUMENTS OF DIRECTORS AND SUPERVISORS (continued)

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

The emoluments in respect of executive directors, supervisors and independent non-executive directors paid/payable by the Group for the year ended 31 December 2015 are as follows:

	Director's fee RMB'000	Basic salaries and allowances RMB'000	Bonus RMB'000	Retirement benefit RMB'000	Social security costs RMB'000	Total RMB'000
Executive directors						
Mr. Wang Hai Bo	–	1,163	850	47	40	2,100
Mr. Su Yong	–	744	550	47	40	1,381
Mr. Zhao Da Jun	–	744	550	32	20	1,346
Independent non-executive directors						
Mr. Zhou Zhong Hui	138	–	–	–	–	138
Mr. Lam Yiu Kin	138	–	–	–	–	138
Mr. Xu Qing (appointed on 29 May 2015)	88	–	–	–	–	88
Independent supervisors						
Mr. Guo Yi Cheng	90	–	–	–	–	90
Mr. Xu Qing (resigned on 29 May 2015)	33	–	–	–	–	33
	487	2,651	1,950	126	100	5,314

42 EMOLUMENTS OF DIRECTORS AND SUPERVISORS (continued)

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

The emoluments in respect of executive directors, supervisors and independent non-executive directors paid/payable by the Group for the year ended 31 December 2014 are as follows:

	Director's fee RMB'000	Basic salaries and allowances RMB'000	Bonus RMB'000	Retirement benefit RMB'000	Social security costs RMB'000	Total RMB'000
Executive directors						
Mr. Wang Hai Bo	–	1,122	900	46	38	2,106
Mr. Su Yong	–	687	600	46	38	1,371
Mr. Zhao Da Jun	–	687	600	31	17	1,335
Independent non-executive directors						
Mr. Zhou Zhong Hui	110	–	–	–	–	110
Mr. Lam Yiu Kin	110	–	–	–	–	110
Mr. Cheng Lin	50	–	–	–	–	50
Mr. Pan Fei	50	–	–	–	–	50
Independent supervisors						
Mr. Guo Yi Cheng	78	–	–	–	–	78
Mr. Xu Qing	78	–	–	–	–	78
	476	2,496	2,100	123	93	5,288

42 EMOLUMENTS OF DIRECTORS AND SUPERVISORS (continued)

(ii) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year (2014: Nil).

(iii) Consideration provided to third parties for making available directors' services

The Group did not pay consideration to any third parties for making available directors' services during the year (2014: Nil).

(iv) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by or entities connected with directors

No loans, quasi-loans and other dealings were made available in favour of directors, bodies corporate controlled by or entities connected with directors subsisted at the end of the year or at any time during the year (2014: Nil).

(v) Chief executive

The Company does not have a chief executive who is not also a director of the Company (2014: Same).

(vi) Inducement or waiver of emoluments

For the years ended 31 December 2015 and 2014, no directors received emoluments from the Group as inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or had agreed to waive any emoluments.