


復旦張江
FUDAN-ZHANGJIANG

# 上海復旦張江生物醫藥股份有限公司
# Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.*

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

## ANNUAL REPORT
# 2016

* *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
Xu Qing

## SUPERVISORS

Zhou Xi *(Chairman)*
Li Ning Jian (Resigned on 13 May 2016)
Zhang Man Juan
Wang Luo Chun (Appointed on 22 February 2016)
Guo Yi Cheng
Liu Xiao Long (Appointed on 13 May 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
Xu Qing

## REMUNERATION COMMITTEE

Zhou Zhong Hui *(Chairman)*
Lam Yiu Kin
Xu Qing

## NOMINATION COMMITTEE

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

## 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, Taizhou Branch
China Merchants Bank, Tianshan Sub-branch
Ping An Bank, Shanghai Branch

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

308 Cailun Road
Zhangjiang Hi-Tech Park
Pudong Shanghai 201210, PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

19/F, Three Exchange Square,
8 Connaught Place, Central, Hong Kong

## AUTHORISED REPRESENTATIVE TO ACCEPT SERVICE OF PROCESS AND NOTICES

ONC Lawyers
19/F, Three Exchange Square,
8 Connaught Place, Central, Hong Kong

## LISTING INFORMATION

H Share
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 | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | **621,870** | 579,463 | 470,900 | 415,925 | 232,527 |
| Operating profit | **155,117** | 153,056 | 129,960 | 108,360 | 63,866 |
| Finance costs | **(4,279)** | (7,106) | (1,861) | (9,414) | (6,166) |
| Profit before income tax | **150,838** | 145,950 | 128,099 | 98,946 | 57,700 |
| Income tax expense | **(20,830)** | (18,903) | (17,605) | (15,405) | (5,264) |
| Profit for the year | **130,008** | 127,047 | 110,494 | 83,541 | 52,436 |
| **Profit attributable to:** | | | | | |
| Shareholders of the Company | **138,708** | 127,723 | 118,258 | 87,218 | 53,159 |
| Non-controlling interests | **(8,700)** | (676) | (7,764) | (3,677) | (723) |
| Total comprehensive income for the year | **129,914** | 127,047 | 110,494 | 83,541 | 52,446 |
| **Total comprehensive income attributable to:** | | | | | |
| Shareholders of the Company | **138,614** | 127,723 | 118,258 | 87,218 | 53,166 |
| Non-controlling interests | **(8,700)** | (676) | (7,764) | (3,677) | (720) |
| EBITDA | **185,970** | 182,070 | 155,748 | 124,212 | 74,874 |
| Basic and diluted earnings per share for profit attributable to the shareholders of the Company | **RMB 0.1503** | RMB 0.1384 | RMB 0.1281 | RMB 0.1009 | RMB 0.0749 |

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total assets | **1,120,753** | 1,020,265 | 824,481 | 749,216 | 537,296 |
| Total liabilities | **(247,699)** | (254,425) | (148,062) | (183,291) | (277,183) |
| | **873,054** | 765,840 | 676,419 | 565,925 | 260,113 |
| **Capital and reserves attributable to:** | | | | | |
| Shareholders of the Company | **843,554** | 732,630 | 650,975 | 532,717 | 223,228 |
| Non-controlling interests | **29,500** | 33,210 | 25,444 | 33,208 | 36,885 |
| | **873,054** | 765,840 | 676,419 | 565,925 | 260,113 |

# 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 2016 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 technical, photodynamic-tech and nanotech, has laid solid foundation for our drug development direction. The Group has committed to developing new clinical 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 for exploratory purpose**, such as the development of anti-infective drugs for the treatment of resistant fungis and staphylococcus aureus, the research on new nanotech with albumin, the development of a new antibody cross-linking drug (ADC), the development of anti-tumor immunity rejection factors in Wnt signaling pathway, the research on the anticancer effect of photodynamic drugs and immunotherapy and the exploratory research on Jagged antibody which interacted between Notch signaling pathway and Hippo signaling pathway for the treatment of liver cancer. This kind of projects focus on the diseases with unmet needs and the deficiency of clinical and patients treatment. It needs to be further explored due to their uncertainties although they are of great importance in the areas of science and clinical treatment.

- **The projects with important breakthrough in clinical treatment**, such as the developments of drugs for the treatment of CIN, drugs to improve the effectiveness of the treatment of cholangiocarcinoma, drugs to decrease the recurrence rate of bladder cancer, drugs for the treatment of acne and high bio-activity recombinant human TNF receptor. This kind of projects has definite significance in the area of scientific theory and would provide new treatments with breakthrough in the area of clinical application. It has completed pre-clinical studies and now in the stage of clinical verification and exploration.

- **The projects for commercialization purpose**, such as those high-end drugs which broke through technical hurdles including the international registration of Doxorubicin Hydrochloride Liposome and the commercialization of generic drugs such as nanoparticle Albumin-bound Paclitaxel; those drugs which broke through patent limitation such as new generic drugs for the indication of biliary cirrhosis as well as other innovative or generic solid modified-release drugs; those drugs which obtained clinical trial approval including the photodynamic drug for the treatment of moderate and severe acne and the bio-similar drugs such as monoclonal antibody against VEGF; and those drugs which planned to submit the clinical trial application such as a photodynamic drug for the treatment of brain gliomas. This kind of projects is of specific importance in clinical treatment and has completed the research on technology. Continuously pushing the clinical research and commercialization is the main purpose in our current stage which will expand the number of drugs as well as the production scale and make 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 our countrymen, especially the drugs which break through technical barriers or patent limitation.

During the year under review, what is particularly noteworthy is the official approval of Hemoporfin for launch into the market. It is another important innovative drug after Beixi and ALA. There was no effective therapy for the port wine stain before and clinicians and researchers are inspired by the effectiveness this drug showed in clinical trial study as well as the higher cure rate compared with traditional laser treatment. We believe this drug will bring patients, especially young people, hopes for physical and psychological aspects and will also provide payback for investors who support and agree with the develop model of the Group.

During the year under review, it is unavoidable that the progresses of some research projects of the Group have not met expectation. Firstly, it is due to the significant changes of domestic regulation for drugs registration. All the parties including pharmaceutical companies and clinical hospitals need to perform self-check and modifications which extend the time schedule of our projects and the actual time spent exceeded a lot. Secondly, lacking understanding of the complexity and difficulty of clinical R&D of new drugs, some work performed repeatedly which postpone the whole progress. We deeply apologize to shareholders for the delay of some research projects and we began to improve the management control process according to the new industrial regulation and requirements in order to push the progress to meet expectation.

We know that modern medical procedure is implemented jointly by clinicians who perform disease diagnosis based on big data and researchers who continuously explore pathogenesis and innovative therapy or drugs. A real pharmaceutical company must take the responsibility of new drugs development. 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 selecting projects by the use of Chinese commercialised method from the drugs or targets which were welled developed overseas. We believe that time will tell, no matter in the areas of treatments improvement or the payback for investors, our efforts will be worthwhile.

## 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. We keep a close eye on hotspots of existing antibody drugs research. We need to find our own direction as the basis of projects selection which means the areas with clinical requirement but lacking effective treatments, with definite positions in scientific theory and unique technology. 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 pre-clinical study of new drug CD30-MMAE, which would be the foundation for further development of other ADC drugs of the Group. In addition, we have been exploring and researching on resistant mechanism of germs and fungus in order to develop new anti-infective drugs for urgent clinical needs. At the same time, we began to conduct researches on finding starting point of immunotherapy for cancers in Wnt signaling pathway. 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 4th 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 has been submitted and the clinical trial approval has been obtained recently.

Anti-sclerostin mab (骨硬化蛋白抗體) for the treatment of osteoporosis 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. At the same time, exploration of the mechanism for treatment of tumors combined with photodynamic therapy and immunotherapy is under progress. Meanwhile, the Group is looking forward to cooperate with photodynamic companies overseas to develop specific drugs or research on specific indications. We also 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(艾拉®,brand name of the first product) 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 ("CIN") 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. We tried to complete the selection and improvement of therapy in clinical trial study and spent a lot of time and effort in designing therapeutic regimen and optimizing operating process as well which lead to delay of the research process.

Aminolevulinic Acid Hydrochloride used for the treatment of moderate and severe acne has obtained the clinical trial approval during the year under review, and will start clinical trial phase I soon.

New indications of adjuvant therapy with Aminolevulinic Acid Hydrochloride for brain gliomas and treatment for basal cell carcinoma are entering into pre-clinical study.

FuMeiDa (复美達®) (the brand name of 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. During the year under review, the Group completed GMP certification and obtained the drug production approval, FuMeiDa can be launched to the market officially. Port-wine stain ("PWS") is the most common congenital vascular malformation characterized by ectatic capillaries in the papillary layer of the dermis. The visible manifestation of this disorder is often considered a disfigurement. The lesions tend to become darker and thicker with time and rarely fade away for life. PWS occurs in anywhere on the body and particularly in face and neck and is reported about 0.3~0.4% incidence of infants worldwide. Before age 40, over 65% of patients without treatment will face the situation of thicken and modular lesions cause great emotional depression. After injection into the blood, Hemoporfin spreads quickly to the surrounding tissues and tends to distribute specifically in vascular endothelial cells. It would selectively damage the photosensitizer-rich vascular endothelium by the use of laser or LEDs with certain wavelength. The dilated and abnormal capillaries in the lesions of patients will be cleared by photodynamic reaction and further effects of coagulation system. As one of the second generation photosensitizer, compared with traditional therapies, Hemoporfin is featured by stable chemical structure, lower photosensitization, rapider metabolism, shorter light-avoidance period requirement, more uniform to treat, higher cure rate, lower incidence of scar formation and lower recurrence rate. We will start clinical trial phase IV soon after the launch of FuMeiDa.

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 and oral Granular drug to improve bioavailability. The Group firmly believes that new agents will improve the drug's efficacy and reduce the associated risk. Furthermore we will consider to cooperate with third-party research institutions or companies by taking advantage of the strengths in production which 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 and will communicate with U.S. Food and Drug Administration ("FDA") on the clinical study result. After the bioequivalence trial, the Company will be required to further obtain the verification of good quality management system of our production plant by 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. The reform of existing production line for this project has been completed. During the year under review, the company prepared clinical samples.

## 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.

After the integration of vitro diagnostic reagents platform, the Group clarified the establishment of food-origined contaminants screening system as our direction of development in the area of clinical detecting besides keeping exploring the existing dairy tests market. The Group will provide solutions for rapid screening, timely intervention and source control after focusing on food-origined contaminants such as antibiotics and mycotoxins in the early stage of human being. During the year under review, several kinds of screening reagents for food-origined antibiotics and their matching testing instruments have been applied for registration and are estimated to launch for sale in the second half of 2017.

Furthermore as our medium and long-term development direction, the Group stays focusing on the area of molecular diagnostic techniques based on the third generation of sequencing technology. During the year under review, the Group established cooperation with several research institutions at home and abroad and performed pre-clinical study on the application of molecular diagnostic techniques in the field of tumor molecular markers and animal disease diagnosis. The Group will continue to develop various 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 2016, the major drugs under R&D of the Group are summarized as follows:

| Technical platform | Project name | Indications | Progress |
|---|---|---|---|
| Genetic technical platform | Recombinant human lymphotoxin α-derivatives (LT) | Tumor | Clinical trial phase II completed; stopped moving forward; discuss new plan |
| | rhTNFR*(m)*:Fc (High bio-activity recombinant human TNF receptor 2-Fc fusion protein mutant (高親和力重組人腫瘤壞死因子受體突變體-Fc融合蛋白) | Arthritis | 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 |
| | Avastin | Tumor | The clinical trial approval has been obtained |
| Photodynamic technical platform | Hemoporfin (海姆泊芬) | Port wine stain | Completed GMP certification and obtained production approval, ready for launch to market |
| | 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 obtained and will start chlinical trial phase I soon |
| | Aminolevulinic acid | Brain gliomas | Pre-clinical study |
| | Aminolevulinic acid | Basal cell carcinoma | Pre-clinical study |
| Nano technical platform | Doxorubicin liposome (鹽酸多柔比星脂質體) | Tumors | Registered in USA |
| | 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 |
| Others | Food safety inspection reagents | Antibiotics inspection, etc. | Under research and register |

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 2016, 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 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 8% 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, and together contributed 97% of the sales generated by the Group.

ALA (艾 拉®) was launched to the market in 2007. 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 volume of ALA increased by 21% compared with that of last year due to sales strategy adjustments based on market trends. However, influenced by the changes of market environment and regulations, the average price of ALA declined slightly. As compared with last year, sales revenue of ALA in 2016 increased by 13%.

## Chairman's Statement

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 entered into a new "Sole Agency Agreement" with NT Pharma (Jiangsu) Co., Ltd. ("NT Pharma") in March 2015 and granted it the exclusive distribution rights of LIBOd®. During the year under review, both of the sales volume and the average unit price of LIBOd® were hit by the gradual implementation of the "two-invoice" system and the new "B2V" policy came into force. The sales revenue increased by 4% compared that of last year which was lower than the expectation. The Company and NT Pharma will adjust the sales strategy as soon as possible to respond to market changes, and it is expected that LIBOd® will still be one of the company's major products in the future.

FuMeiDa (the brand name of Hemoporfin), 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. During the year under review, the Group completed GMP certification and obtained the drug production approval, FuMeiDa can be launched to the market officially. 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. During the year under review, the Group has entered into a national distribution agreement with a famous domestic pharmaceutical distribution enterprise.

For the past many years, as the first product group, diagnostic reagents in clinical treatment contribute stable sales revenue to the Group. With 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 of 2015, 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 related diagnostic reagents remains generally unchanged 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 set up 7 clinics in Beijing, Shenzhen, and Zhengzhou, etc, all of them completed the registration and filing procedures with the relevant authorities regarding the establishment and planned to set up about five new clinics in Wuhan, Shanghai and Shenyang in 2017. As at the end of year 2016, two clinics have been open for public.

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 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 new 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 2016, the commercialized projects of the Group are summarized as follows:

| Technical platform | Project name | Indications | Launching time |
|---|---|---|---|
| Photodynamic technique | ALA | Condyloma acuminate | 2007 |
| | FuMeiDa | Port wine stain | 2017 |
| 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 4 invention patents. By the end of the year 2016, the Group has cumulatively applied for 69 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 "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 2,005,800. As at 31 December 2016, the Company has received all the amounts.

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 1,492,600. As at 31 December 2016, the Company has received all the amounts. During the year under review, the Company has also received the matching grant from Zhangjiang Hi-tech Park and Shanghai amounting to RMB 1,933,000.

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 their interest expenses which covering the loans amounting RMB 70,000,000. During the year under review, the company received corresponding interest reimbursement amounted to RMB 2,821,000.

During the year under review, the Company was certified as high-growth enterprise in Zhangjiang Hi-tech Park and received the financial grant from Zhangjiang Hi-tech Park amounting to RMB 5,000,000.

During the year under review, the design of workshop air conditioner system of the Company obtained the best equipment innovation award of annual facility award issued by International Society of Pharmaceutical Engineering ("ISPE") in ISPE China 2016 Annual Spring Conference held in Shanghai.

## 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, Supervisors and all the staff of the Group for their dedication and contribution.

**Wang Hai Bo**
*Chairman*

Shanghai, the PRC
16 March 2017

# 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 consolidated revenue of the Group for the year 2016 amounted to approximately RMB 621,870,000, comparing to RMB 579,463,000 for the year 2015, representing an increase of 7%. The main reason is that sales of LIBOd® (里葆多®) and ALA (艾拉®), the major products of the Group which contributed significant revenue to the Group, increased sales revenue by about 4% and 13%, respectively, comparing to those for the year 2015.

The total revenue for the year 2016 mainly came from the sale of medical products. The main source of total revenue for the year 2016 was nearly the same as that for the year of 2015.

*Revenue from sale of medical products*

The major products of the Group are ALA from photodynamic platform, LIBOd® 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® to end customers nationwide is conducted by the sales team of NT Pharma and that of the rest products is taken by sales team of the Group.

Revenue of the Group from the sale of medical products for the year 2016 was RMB 620,033,000 (representing 99.70% of the total revenue), increased by 8% from that of last year which was RMB 576,647,000. The major products of the Group, ALA and LIBOd®, have contributed 42% and 55% to the total revenue of the Group, 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 was recognised as revenue in 2015 and there was no impact on the revenue in 2016. The Company entered into a new sole agency agreement with NT Pharma in 2015, without any consideration for the exclusive distribution rights.

## COST OF SALES

For the year 2016, cost of sales of the Group was RMB 46,512,000, while the corresponding figure for 2015 was RMB 50,014,000. The ratio of cost of sales to revenue from sale of products reduced to 7% from the level of 9% for last year, and remained generally stable. The decrease of the ratio was mainly due to the large-scale production of the Group's products, meanwhile, the additional consumption of materials has been reduced by increasing success rates of products manufacturing. The Group has been implementing the strict cost control and making the best efforts to keep the gross profit margin at a high level while maintaining the existing product structure.

## OPERATING PROFIT

For the year 2016, operating profit of the Group was RMB 155,117,000 comparing to the operating profit of RMB 153,056,000 for the year 2015, representing an increase of 1.3%.

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

- Other income

  Other income for the year 2016 was RMB 61,772,000, compared with RMB 72,920,000 for the year 2015, representing a decrease of 15%. Other income for the year 2016 included the income from Shanghai Pharmaceuticals, a shareholder of the Company, for the strategic cooperation project on innovative pharmaceuticals research and development amounting to approximately RMB 17,122,000 compared with approximately RMB 19,508,000 for the year 2015. Besides, due to a decrease in government grants, the Group has recognised related income amounting to RMB 33,020,000 for the year 2016, compared with RMB 37,915,000 for the year 2015.

- 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, controllable risks and probable future economic benefits can be capitalized. Therefore, most of R&D costs were recognised as expenses as incurred. R&D costs for the year 2016 were RMB 95,046,000, compared with RMB 110,116,000 for the year 2015, representing a decrease of 14%. The ratio of R&D costs to revenue for the year 2016 was 15% (2015: 19%).

- Distribution and marketing costs

  Distribution and marketing costs for the year 2016 were RMB 349,838,000 compared with RMB 309,038,000 for the year 2015, representing an increase of 13%. The distribution and marketing costs grew in line with the increase in revenue for sale of products, the ratio of distribution and marketing costs to revenue for sale of products remains basically consistent compared with that of last year.

- Administrative expenses

  Administrative expenses for the year 2016 were RMB 36,485,000, compared with RMB 28,876,000 for the year 2015, representing an increase of 26%. The increases of the administrative expenses was mainly due to the increase of operating costs such as payroll and the one-off establishment fee for the newly established clinics of Derma Clinic during the year under review.

- Other operating expenses

  Other operating expenses for the year 2016 were RMB 644,000 which mainly include bank charges, compared with RMB 1,283,000 for the year 2015, representing a decrease of 50%. It mainly included the losses on disposals of fixed assets in the year 2015.

## FINANCE COSTS

For the year 2016, finance costs of the Group were RMB 4,279,000, compared with RMB 7,106,000 for the year 2015, representing a decrease of 40%. It was mainly due to decrease of interest rate of borrowings by the Group during the year under review.

## TAX

Effective from 1 January 2008, the Group except for a Hong Kong subsidiary is 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 and Tracing Bio-technology were recognised as high-tech enterprises, and their applicable tax rate are 15% in 2016. The applicable tax rates of the rest Mainland China subsidiaries are 25% in 2016.

The Hong Kong subsidiary Fernovelty Holding was incorporated in 2016. Since it did not have estimated assessable profit for 2016, Hong Kong profits tax has not been provided.

As at 31 December 2016, except for Tracing Bio-technology, the applicable tax rate and tax policy of the Group remained unchanged.

## PROFIT FOR THE YEAR

The profit of the Group for the year 2016 was approximately RMB 130,008,000, comparing with that of RMB 127,047,000 for the year 2015, representing an increase of 2%.

## PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company of approximately RMB 138,708,000 was recorded in the consolidated financial statements for the year 2016, compared with that of approximately RMB 127,723,000 for the year 2015, representing an increase of 9%.

The profit of the Company of RMB 145,476,000 was recorded in the financial statements of the Company for the year 2016, compared with that of approximately RMB 135,889,000 for the year 2015, representing an increase of 7%.

## SIGNIFICANT INVESTMENTS

The Board approved the Company to establish 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. Derma Clinic's registered capital is RMB50,000,000. As at 31 December 2016, the Company has paid RMB15,030,000 and the rest will be paid pursuant to the investment agreement and prospective actual situation. Details of this transaction were set out in the announcements issued by the Company on 12 December 2014 and 4 August 2015.

The Board approved the Company to establish a subsidiary named Fernovelty (Hong Kong) Holding Co., Limited* (風屹(香港)控股有限公司) ("Fernovelty Holding") at Hong Kong on 18 September 2016 and hold its 100% equity interest. The Company received the approval and completed the registration and filing procedures with the relevant authorities regarding the establishment of Fernovelty Holding on 4 October 2016. Fernovelty Holding will mainly take responsibility for the cooperation and investment of R&D projects in overseas for the Group. Total investment amount is about USD10,000,000 and during the year under review, USD2,500,000 has been fully funded.

Saved as disclosed above, the Group had no other significant investment during the year 2016.

## MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year ended 31 December 2016, the Group did not have any material acquisition or disposal of any subsidiaries and associated companies.

## CONTINGENT LIABILITIES

As at 31 December 2016, the Directors were not aware of any material contingent liabilities.

## CHARGE ON ASSETS

As at 31 December 2016, 7 intellectual properties of the Group were pledged as security of bank borrowings. These intellectual properties do not have any carrying value in the Group's financial statements for the year ended 31 December 2016.

Saved as disclosed above, there were no other charges on the Group's assets as at 31 December 2016.

## BANK BORROWING

As at 31 December 2016, the outstanding amount of the loans of the Group was RMB 120,000,000, which includes:

On 24 October 2016, the secured bank borrowing of RMB 30,000,000 was taken by the Company, bore a fixed interest rate at 4.14% per annum. The borrowing was due for repayment on 24 October 2017.

On 10 November 2016, the unsecured bank borrowing of RMB 60,000,000 was taken by the Company, bore a floating interest rate at 3.915% per annum. The borrowing was due for repayment on 10 August 2017.

On 20 December 2016, the unsecured bank borrowing of RMB 30,000,000 was taken by the Company, bore a floating interest rate at 3.915% per annum. The borrowing was due for repayment on 19 December 2017.

## 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 but there is still some uncertainty.

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 2016, the Group had cash and cash equivalents of approximately RMB 511,284,000.

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 2016 and 2015, 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 2016, the Group had a total of 605 employees, as compared to 552 employees as at 31 December 2015. Staff costs including directors' remuneration for the year 2016 were RMB 98,992,000, compared with RMB 83,534,000 for the year 2015. 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 2016 RMB'000 |
|---|---|---|
| **Pharmaceuticals R&D projects** | | |
| – the clinical study project regarding using ALA for the treatment of cervical intraepithelial neoplasia | **20,000** | 13,993 |
| – the pre-clinical study and clinical study project regarding using ALA for the treatment of brain glioma | **10,000** | 4,410 |
| – the pre-clinical and clinical study project of paclitaxel albumin nanoparticles | **20,000** | 20,000 |
| – the pre-clinical and clinical study project of CD30-MMAE | **30,000** | 30,000 |
| **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** | 173,978 |

## 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 RMB 0.10 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.

At the annual 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 held on 13 May 2016, the resolution of proposed extension of the validity period of the resolution in respect of the proposed Issue of A shares as well as the resolution of proposed extension of the authorization period to the Board to deal with matters relating to the Issue of A Shares were considered and approved.

In accordance with the relevant provisions of the Implementation Measures on Pooling National Social Security Funds through Transferring Partial State-owned Shares in the Domestic Securities Market (Cai Qi [2009] No. 94) jointly issued by the Ministry of Finance, the State-owned Assets Supervision and Administration Commission of the State Council, the China Securities Regulatory Commission and the National Social Security Fund ("NSSF") on 19 June 2009, upon the initial public offering of A shares of the Company, the state-owned shareholders of the Company should transfer part of their holding of state-owned shares in an amount equivalent to 10% of the total amount of A shares to be issued to NSSF. As the only state-owned shareholder of the Company confirmed now, Shanghai Fudan Asset Management Co., Ltd. is applying to the competent authority-in-charge for the transfer of state-owned shares.

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 circulars dated 24 June 2015 and 13 April 2016.

# Report of the Directors

The Board is pleased to present the directors' report for the year 2016 and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

## 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, including genetic technical platform, photodynamic platform, nano technical platform and diagnosis technology platform. As at the end of the report period, the Group had about 20 major R&D projects and near 28 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, approved to launch to the market in 2016 officially.

In addition, the Company established a subsidiary named Derma Clinic with third parties in 2015. It 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.

The Group's revenue for the year 2016 was generated from the sale of medical products.

The Group only operates a single business segment in 2015 and 2016 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 | 45.82% | |
| Total of the five largest customers | 70.67% | |
| Largest supplier | | 11.18% |
| Total of the five largest suppliers | | 40.17% |

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 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 R&D risks of innovative drugs, promotion risks of innovative drugs, the risks caused by single sales channel of LIBOd® and price cut down risks of drugs, etc.

There are many uncertainties during the R&D of innovative drugs with large investment and long research period. Once the project after many years of research and ultimately attributed to failure, there is a big negative impact on the company. The company will continue to improve project management from the beginning of the project with fully demonstration to reduce the risk from the source. In addition, we will perform assessment during the research process in a timely manner to reduce the risk of each stage. And 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, controllable risks and probable future economic benefits can be capitalized. Therefore, most of R&D costs were recognised as expenses as incurred. The success of the final project or not, will not have a greater impact on the current financial statements.

After the success of research and launch into the market, it needs time for innovative drugs to develop the market to achieve their sales expectations. It's uncertainty to set the length of the process or to judge if achieve the desired state. The company will promote new products in a positive and scientific manner, in order to let professionals and patients to have dependence with full understanding of the product as well as avoiding all other risks caused by informal means.

Entering into the sole agency agreement, LIBOd® adopts the sales method of exclusive distribution. For the point of view of the Company, its sales channel is single and the dealer's sales status will directly and completely affect this product's sales performance. The Company will analyze the pros and cons of the sole agency model for the overall interests of the Company and pay close attention to the sales status of the distributor. The Company will keep timely communication and coordination for the adjustment of related strategies if necessary.

There are lots of factors which will likely affect the Company's sales revenue and sales profit such as the release of the drug sales regulations, the gradual implementation of the "two-invoice" system and the new "B2V" policy came into force, As our drugs are not included in the national essential drug list, it is impossible to make a substantial price reduction under the current policy. On the other hand, the Company will try to avoid the price drop due to other reasons.

The principal uncertainty is regulatory policy. In recent years, the domestic drug regulatory policy has undergone major changes. It is uncertain about further reform action. The Company will actively adapt to the new regulatory policy of the industry and improve the corresponding management of our R&D projects, which reduce the impacts of regulatory changes as lower as possible.

## RESULTS

The results of the Group for the year ended 31 December 2016 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 2016 using financial key performance indicators are set out in the section headed "Management Discussion and Analysis" of the annual report.

## DIVIDENDS

Relevant resolution has been passed at a meeting of the Board held on 16 March 2017 to propose to distribute a final dividend of RMB 0.05 per share (tax inclusive) for the year ended 31 December 2016, totalling approximately RMB 46,150,000. If the profit distribution plan is approved by the shareholders by way of an ordinary resolution at the 2016 annual general meeting to be held on Friday, 9 June 2017, the final dividend is expected to be distributed on Monday, 21 August 2017 to all shareholders whose names appear on the register of the Company on Thursday, 22 June 2017. 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, 17 June 2017 to Thursday, 22 June 2017 (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, 16 June 2017. 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 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 22 June 2017, 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
Xu Qing

### Supervisors

Zhou Xi *(Chairman)*
Li Ning Jian (Resigned on 13 May 2016)
Zhang Man Juan
Wang Luo Chun (Appointed on 22 February 2016)
Guo Yi Cheng
Liu Xiao Long (Appointed on 13 May 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;

6) Environmental, Social and Governance Report.

## 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 Supervisor. 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 2016** | Year 2015 |
| Directors | **3** | 3 |
| Non-directors | **4** | 4 |
| | **7** | 7 |

The emoluments fell within the following bands:

| | Number | |
|---|---|---|
| | **Year 2016** | Year 2015 |
| The emoluments range (HKD) | | |
| 1,000,000 – 1,500,000 | **4** | 2 |
| 1,500,000 – 2,000,000 | **2** | 4 |
| 2,000,000 – 2,500,000 | **1** | – |
| 2,500,000 – 3,000,000 | **–** | 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 2016, 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 all the 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 2016, the Company has purchased liability insurance for Directors and Supervisors which provides proper protection 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', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2016, 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 (Chapter 571 of the Laws of Hong Kong) ("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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

| Name | Position | Class of shares | Number of shares held | Capacity | Type of interest | Percentage in Domestic Shares | Percentage in total share capital |
|---|---|---|---|---|---|---|---|
| Wang Hai Bo | Director | Domestic Shares | 57,886,430 (L) | Beneficial owner | Personal | 9.93% | 6.27% |
| Su Yong | Director | Domestic Shares | 22,312,860 (L) | Beneficial owner | Personal | 3.83% | 2.42% |
| Zhao Da Jun | Director | Domestic Shares | 19,260,710 (L) | Beneficial owner | Personal | 3.30% | 2.09% |
| Wang Luo Chun | Supervisor | Domestic Shares | 1,170,000 (L) | Beneficial owner | Personal | 0.20% | 0.13% |
| Zhang Man Juan | Supervisor | Domestic Shares | 870,000 (L) | Beneficial owner | Personal | 0.15% | 0.09% |

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

## SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2016, the persons other than a director, supervisor or chief executive 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, Supervisors and chief executive):

| 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 2016, 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 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 relevant announcement published by the Company on 18 March 2016. The Company entered into the sales and distribution agreement with Shanghai Pharmaceutical Distribution on 18 March 2016 to renew the former sales and distribution agreement entered into between the Company and Shanghai Pharmaceutical Distribution dated 19 March 2013 as approved at the Board meeting held on 18 March 2016. The annual caps for the continuing connected transactions contemplated under the Sales and Distribution Agreement for the three years ending 31 December 2018 are approximately RMB 20 million, RMB 22 million and RMB 24 million, respectively. Shanghai Pharmaceutical Distribution is a wholly-owned subsidiary of Shanghai Pharmaceuticals, which is a substantial Shareholder of the Company. Shanghai Pharmaceutical Distribution is therefore a connected person of the Company under the Listing Rules. The transactions under the sales and distribution agreement will be carried out on a continuing or recurring basis in the ordinary and usual course of business of the Company and therefore, constitute continuing connected transactions of the Company under the Listing Rules. Since the applicable percentage ratios for the highest proposed annual cap for each of the three years ending 31 December 2018 for the transactions under the sales and distribution agreement are more than 0.1% but less than 5%, the continuing connected transactions are subject to the reporting, announcement and annual review requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. During the year 2016, the product sales revenue to Shanghai Pharmaceutical Distribution was RMB 11,945,000, which did not exceed the annual cap which was approved at the Board meeting held on 18 March 2016.

*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 are approximately RMB 33 million, RMB 31 million and RMB 20 million, respectively. On 18 March 2016, the Company entered into the supplemental agreement with Shanghai Pharmaceuticals to revise the existing annual cap for 2016 under the strategic cooperation agreement from RMB20 million to RMB34 million. Details were set out in the Company's circular issued on 13 April 2016. Since the applicable percentage ratios for the proposed revised annual cap for 2016 for the transactions under the strategic cooperation agreement as amended by the supplemental agreement exceed 5%, the transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements. The transaction was approved at the annual general meeting held on 13 May 2016. During the year 2016, the Group received an amount of RMB 21,256,000 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.

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 (Revised) "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 16 March 2017.

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 2016.

## PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights in the articles of association of the Company (the "Articles of Association") or under the laws of the People's Republic of China (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 2016 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" and "Environment, Social and 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
16 March 2017

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 2016 in accordance with the relevant provisions and requirements of the Company Law and the Articles of Association, and the Supervisors have attended all on-site 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 2016.

The Supervisory Committee was of the view that the resolutions passed in all board meetings for the year 2016 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 auditors' 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 2016 and has great confidence in the future of the Group.

## Supervisory Committee

Mr. Zhou Xi *(Chairman)*
Ms. Zhang Man Juan
Mr. Wang Luo Chun
Mr. Guo Yi Cheng
Mr. Liu Xiao Long

Shanghai, the PRC
16 March 2017

# 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, an 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 and New Zealand (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 2016 is as follows:

1) Review the financial reports for the year ended 31 December 2015 and for the half year ended 30 June 2016, respectively;

2) Review connected transactions of the Group during the year 2015;

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 2016;

6) Discuss the risk management and internal control systems with the management on a regular basis to ensure that the management has performed its duty to have effective systems.

The Audit Committee meeting held on 16 March 2017 reviewed the Company's 2016 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 approve the annual results announcement and the consolidated financial statements for the year ended 31 December 2016, and the Audit Committee proposed that the Board consider the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the international and the statutory auditors of the Group, respectively, for the year 2017.

The Audit Committee held four meetings in 2016.

## Audit Committee

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

Shanghai, the PRC
16 March 2017

# 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.

A summary of the work performed by the Remuneration Committee in 2016 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 2015;

3) Formulate the remuneration scheme for the Directors and Supervisors for 2016.

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

The Remuneration Committee held one meeting in 2016.

## Remuneration Committee

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

Shanghai, the PRC
16 March 2017

# 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 2016 is as follows:

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

2) 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 2016.

## Nomination Committee

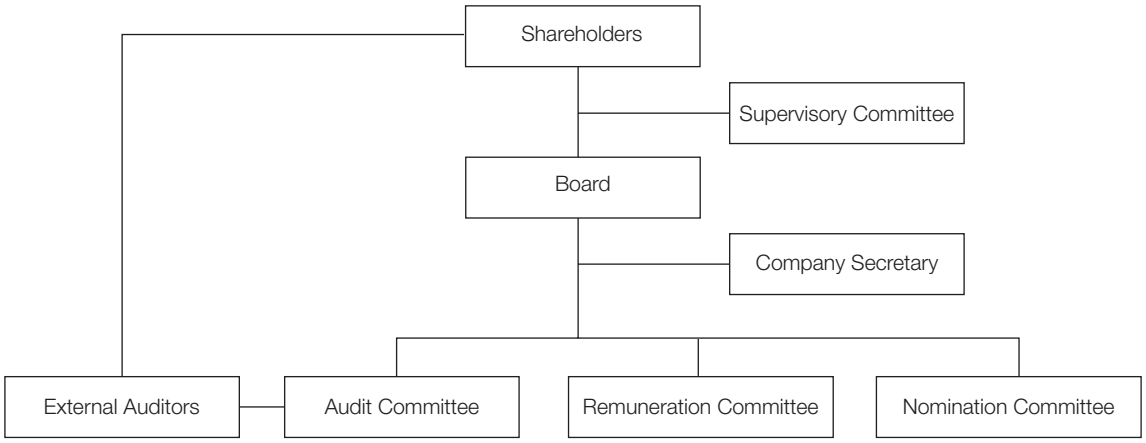
Mr. Wang Hai Bo *(Chairman)*
Mr. Zhou Zhong Hui
Mr. Xu Qing

Shanghai, the PRC
16 March 2017

# 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) Regulations for information disclosure;

g) Regulations for internal control management;

h) 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 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. All the Directors were in place in the whole year of 2016.

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.

## Powers of the Management

Pursuant to the Articles of Association, the management (i.e. one general manager, with a certain number of deputy general managers, one financial controller who assists the general manager's work) shall be accountable to the Board of Directors and exercise the following functions and powers:

1) to be in charge of the Company's production, operation and management and to organize the implementation of the resolutions of the board of Directors;

2) to organize the implementation of the Company's annual business plan and investment plan;

3) to draft plans for the establishment of the Company's internal management structure;

4) to draft the Company's basic management system;

5) to formulate basic rules and regulations of the Company;

6) to propose the appointment or dismissal of the Company's deputy general managers and the financial controller;

7) to appoint and dismiss management personnel other than those required to be appointed or dismissed by the board of Directors;

8) other functions and powers conferred by these Articles and the board of directors.

## 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 responsible for 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 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 2016, four of which were on-site, and the other two were 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[Note] |
|---|---|---|---|---|---|---|
| **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 | 3 | 2 | 1 | 0 | 83% |
| Yu Xiao Yang | 6 | 4 | 2 | 0 | 0 | 100% |
| **Independent Non-executive Directors** | | | | | | |
| Zhou Zhong Hui | 6 | 3 | 2 | 1 | 0 | 83% |
| Lam Yiu Kin | 6 | 4 | 2 | 0 | 0 | 100% |
| Xu Qing | 6 | 3 | 2 | 1 | 0 | 83% |

Note: Attendance by proxy is not be counted as attendance rate.

The table below sets out the time and major agenda of Board meetings in 2016:

| Time of Board meetings | Major agenda |
|---|---|
| **Regular Board meetings** | |
| 18 March 2016 | Reviewed the annual report of 2015;<br>Considered the distribution of dividend;<br>Considered the re-appointment of the auditors;<br>Considered the 2016 remuneration plans for Directors and Supervisors;<br>Determined the time for annual general meeting. |
| 13 May 2016 | Reviewed the first quarterly results of 2016. |
| 9 August 2016 | Reviewed the interim results of 2016. |
| 11 November 2016 | Reviewed the third quarterly results of 2016. |
| **Extraordinary Board meeting** | |
| 20 April 2016 | Considered the granting of a general mandate to the Board to issue the shares of the Company. |
| 18 September 2016 | Considered the establishment of Fernovelty Holding in Hong Kong. |

## 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 arranged on-site training once, and 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)* | 3/3 | 100% |
| Su Yong | 3/3 | 100% |
| Zhao Da Jun | 3/3 | 100% |
| Ke Ying | 3/3 | 100% |
| Shen Bo | 3/3 | 100% |
| Yu Xiao Yang | 3/3 | 100% |
| Zhou Zhong Hui | 3/3 | 100% |
| Lam Yiu Kin | 3/3 | 100% |
| Xu Qing | 3/3 | 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 2016.

## 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. But the company did not sign any relevant unexpired service contract which is not terminable 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 2016.

## 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 |
|---|---|---|---|
| **Shareholder representative Supervisor** | | | |
| Zhou Xi *(Chairman)* | 29 May 2015 | – | From the appointed date to the AGM held in 2017 |
| Li Ning Jian (Resigned on 13 May 2016) | 30 May 2013 | 30 May 2014 | 2 years |
| **Employee representative Supervisor** | | | |
| Zhang Man Juan | 24 June 2005 | 30 May 2014 | 3 years |
| Wang Luo Chun (Appointed on 22 February 2016) | 22 February 2016 | – | From the appointed date to the AGM held in 2017 |
| **Independent Supervisor** | | | |
| Guo Yi Cheng | 23 May 2008 | 30 May 2014 | 3 years |
| Liu Xiao Long (Appointed on 13 May 2016) | 13 May 2016 | – | From the appointed date to the AGM held in 2017 |

The Supervisory Committee held four meetings during 2016, the attendance of which was as follows:

| Members of the Supervisory Committee | Attendance in person/ Times of meetings | Attendance rate |
|---|---|---|
| Zhou Xi *(Chairman)* | 3/4 | 75% |
| Li Ning Jian (Resigned on 13 May 2016) | 1/1 | 100% |
| Zhang Man Juan | 4/4 | 100% |
| Wang Luo Chun (Appointed on 22 February 2016) | 4/4 | 100% |
| Guo Yi Cheng | 3/4 | 75% |
| Liu Xiao Long (Appointed on 13 May 2016) | 2/3 | 67% |

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 2016.

## RISK MANAGEMENT AND INTERNAL CONTROL

The responsibilities of the Board of the Company include the establishment of complete risk management and internal control and its effective implementation. During the year under review, the Board was responsible for evaluating and determining the nature and extent of the risks the Group wants to take in achieving the its strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. Meanwhile, the Board oversees the management in the design, implementation and monitoring of the risk management and internal control systems, and the management has provided a confirmation to the Board on the effectiveness of these systems. The Audit Committee of the Board oversaw the Group's risk management and internal control systems on an ongoing basis and conducted a review of the effectiveness of the Group's risk management and internal control systems during the year under review. The review covered all material controls, including financial, operational and compliance controls and ensured the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and the Company can only provide reasonable and not absolute assurance against material misstatement or loss;

In February 2011, the Company established the Internal Audit and Control Department of the Company (the "IACD") to enhance its internal control system and guarantee the effectiveness of the Group in respect of financial, operational, compliance and risk management. The IACD reports important points in risk identification to the Audit Committee on a quarterly basis and elaborates on corresponding measures and subsequent improvements. During the year under review, the IACD made self-check four times in the Audit Committee meetings focusing on risk management and risk identification and the Audit Committee summarized and reported the results to the Board. Furthermore, the IACD discussed risk management and internal control systems with the Audit Committee and reviewed the effectiveness of the risk management and internal control systems. In addition, the Company employed 3rd party agency to provide counseling to form the risks list and risks

base which can suggest some solution to for risks identification, analysis, assessment, alert and treatment in order to help the IACD perform more effective risk identification and internal control.

The Company's Audit Committee and the Board have reviewed the effectiveness of the risk management and internal control systems of the Group during the year 2016 and the Board considers the current risk management and internal control systems of the Group are effective and adequate. The Company will further enhance the Group's risk management and internal control systems pursuant to the requirements of the Listing Rules on internal control, to ensure that the Group 's financial, operational, compliance and risk management are under effective control during the process of its continuing development, and to protect the interests of shareholders.

The Company formulated several rules focusing on risk management and internal control including the "regulations for information disclosure" and the "regulations for internal control management". Pursuant to these regulations, the main procedures for the delivery, review and disclosure of inside information is as follow:

1) Relevant responsible persons who obtaining the information which might be disclosed, are required to review the faithfulness, accuracy and completeness of the information;

2) The main responsible persons or their designated special responsible staff shall deliver relevant information to the Company Secretary, and shall take confidential measures;

3) The Company Secretary shall review according to relevant requirements and determine whether to approve their disclosure applications; and

4) Make the information disclosure to the public in accordance with the stipulated procedures.

During the year under review, the Company followed the internal regulations as specified above in respect of its information disclosure obligation. The Company announced the important information which needs to be disclosed in order to ensure its faithfulness, accuracy, completeness and timeliness and ensure investors can obtain information publicly disclosed through the open, fair and equitable method.

## 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, risk management, 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 is the chairman of the Committee. 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 in Australia and New Zealand (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 four times in 2016. Senior management and/or external auditors were invited to attend each meeting. In 2016, the Audit Committee has reviewed reports of external auditors, the accounting principles and practices adopted by the Group, risk management and 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 2016 interim results and 2015 annual 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 2016:

| Audit Committee | Attendance in person/ Times of meetings | Attendance rate |
|---|---|---|
| Lam Yiu Kin *(chairman)* | 4/4 | 100% |
| Shen Bo | 3/4 | 75% |
| Xu Qing | 3/4 | 75% |

## Connected transactions

The Audit Committee has reviewed the connected transactions. For the year ended 31 December 2016, the connected transactions were either exempted from disclosure requirement or have been approved by the board meeting or the general meeting.

## External auditors

The Company appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the Company's international and statutory auditors respectively in 2016. 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 2016** | Audit fees and non-audit fees in 2015 |
|---|---|---|
| PricewaterhouseCoopers | **RMB 1,153,000** | RMB 1,161,000 |
| PricewaterhouseCoopers Zhong Tian LLP | **RMB 950,000** | RMB 950,000 |
| PricewaterhouseCoopers Consultants (Shenzhen) Limited | **RMB 255,000** | – |
| PricewaterhouseCoopers Business Consulting (Shanghai) Co. Limited | **RMB 94,000** | – |
| Other auditor | **RMB 127,000** | RMB 23,000 |

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

| | **Fees in 2016** | Fees in 2015 |
|---|---|---|
| ***Audit fees*** | | |
| Annual statutory audit | **RMB 2,222,000** | RMB 2,118,000 |
| ***Non-audit fees*** | | |
| Overseas investments financial due diligence | **RMB 255,000** | – |
| Environmental, Social and Governance ("ESG") Report | **RMB 94,000** | – |
| Counting services at annual general meeting and extraordinary general meeting | **RMB 8,000** | RMB 16,000 |

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 2016, 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% |
| Xu Qing | 1/1 | 100% |

Pursuant to the principles above, recommended by the Remuneration Committee and approved by the Board and general meeting, the remuneration of the Directors and senior management of the Group have been modified during the year 2016. Refer to note 36 and note 42 to the consolidated financial statements for the emoluments of Directors and senior management for 2016.

## 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 2016, 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% |
| Xu Qing | 1/1 | 100% |

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 2016, 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 more than 150 analysts and representatives from investment institutions and individual investors focusing on the domestic and foreign medical industries.

As at 31 December 2016, 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 2016 maintained the relevant applicable minimum percentage of listed securities as prescribed by Rule 8.08(1)(a) of the Listing Rules.

For the year 2016, there is no change on the Articles of Association of the Company.

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 2016, the Company has held an annual general meeting, details of which are as follows:

| | |
|---|---|
| Time | 10:00 a.m., 13 May 2016 |
| 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;<br>To consider and approve the proposed profit distribution plan for the year ended 31 December 2015 and the final dividend distribution plan for the year ended 31 December 2015, and to authorize the Board to distribute such final dividend to its Shareholders;<br>To consider and approve the appointment of an independent Supervisor; |

To consider and approve the proposal in relation to the authorization to the Board to, in accordance with the applicable laws and regulations and the listing rules of the places where the Shares are listed, as well as in the best interest of the Company, purchase wealth management products and deal with all relevant matters thereof, which include but are not limited to determining the terms of wealth management contracts, executing the relevant contracts and legal documents and handling all the relevant formalities;

To consider and approve the entering into of the Supplemental Agreement dated 18 March 2016 between the Company and Shanghai Pharmaceuticals Holding Co., Ltd., and the revised annual cap for the year ending 31 December 2016 for the continuing connected transactions contemplated thereunder;

To consider and approve the adoption of the Regulations for Information Disclosure, the Administrative Rules of Connected/Related-party Transactions, the Administrative Rules of Use of Proceeds, the Regulations for Financing and External Guarantee, the Administrative Rules of Major Decisions on Investment and Operation, the Rules of Procedures for General Meeting, the Rules of Procedures for Board Meeting, the Rules of Procedures for the Supervisory Committee;

To consider and approve the extension of the validity period of the resolution in respect of the proposed issue of not more than 27,000,000 A shares with a nominal value of RMB 0.10 each (the "Issue of A Shares"), which will be listed on the Shanghai Stock Exchange. The valid period of the resolution on the Issue of A Shares is 12 months immediately following the expiration of the original validity period (i.e. 10 August 2016) of such resolution;

To consider and approve the extension of the authorization period to the Board to deal with matters relating to the Issue of A Shares. The term of the extended authorization shall be a period of 12 months immediately following the expiration of the original validity period (i.e. 10 August 2016) of such authorization;

To consider and approve the granting of a general mandate to the Board to issue the shares of the Company.

In 2016, the Company has held one class meeting of holders of H Shares, details of which are as follows:

| | |
|---|---|
| Time | 11:00 a.m., 13 May 2016 |
| 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 extension of the validity period of the resolution in respect of the Issue of A Shares, which will be listed on the Shanghai Stock Exchange. The valid period of the resolution on the Issue of A Shares is 12 months immediately following the expiration of the original validity period (i.e. 10 August 2016) of such resolution.<br>To consider and approve the extension of the authorization period to the Board to deal with matters relating to the Issue of A Shares. The term of the extended authorization shall be a period of 12 months immediately following the expiration of the original validity period (i.e. 10 August 2016) of such authorization. |

In 2016, the Company has held one class meeting of holders of Domestic Shares, details of which are as follows:

| | |
|---|---|
| Time | 11:30 a.m., 13 May 2016 |
| 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 extension of the validity period of the resolution in respect of the Issue of A Shares, which will be listed on the Shanghai Stock Exchange. The valid period of the resolution on the Issue of A Shares is 12 months immediately following the expiration of the original validity period (i.e. 10 August 2016) of such resolution.<br>To consider and approve the extension of the authorization period to the Board to deal with matters relating to the Issue of A Shares. The term of the extended authorization shall be a period of 12 months immediately following the expiration of the original validity period (i.e. 10 August 2016) of such authorization. |

The attendance of individual directors at the general meeting during the year 2016 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)* | 1/1 | 100% |
| Su Yong | 1/1 | 100% |
| Zhao Da Jun | 1/1 | 100% |
| **Non-executive Director** | | |
| Ke Ying | 1/1 | 100% |
| Shen Bo | 1/1 | 100% |
| Yu Xiao Yang | 0/1 | 0% |
| **Independent Non-executive Director** | | |
| Zhou Zhong Hui | 1/1 | 100% |
| Lam Yiu Kin | 1/1 | 100% |
| Xu Qing | 0/1 | 0% |

Arrangements for the dates of the annual results in 2016, the interim results in 2017 and the annual general meeting are as follows:

| Items | Proposed time |
|---|---|
| Announcement of 2016 results | 16 March 2017 |
| Annual general meeting | 9 June 2017 |
| Announcement of 2017 interim results | Around 10 August 2017 |

# 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 aspects. This means that we not only focus on the production, but also focus on all the other aspects 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.

## Social Public Welfare

In order to support the development of Shanghai charity, the Company made donations to Shanghai Spring Teenagers Development Center ("Spring") on "Spring Dream Plan" project by Shanghai charity fund Pudong branch. The plan aimed at helping students develop multiple thinking, sound mind and exploring ability.

The Group officially launched a public welfare assistance program named "Looking for the kiss of Angel" in December 2016 which planned to provide drugs for port wine stain patients from poor areas.

During the year under review, the Company prepared ESG report pursuant to Appendix 27 "Environmental, Social and Governance Reporting Guide" of the Listing Rules.

By order of the Board
**Xue Yan**
*Company Secretary*

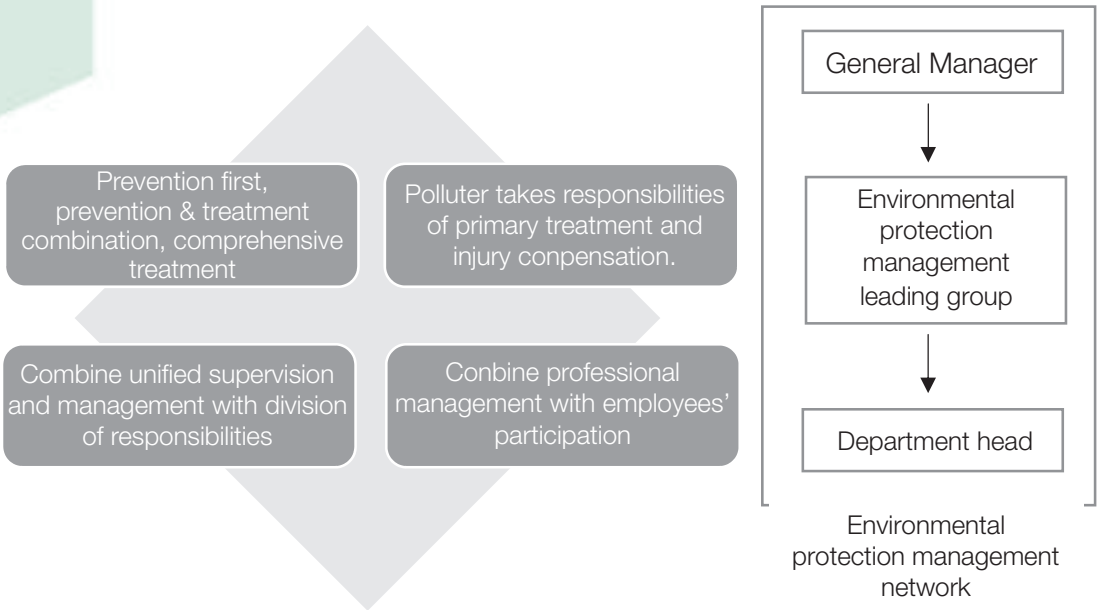
Shanghai, the PRC
16 March 2017

# Environmental, Social and Governance Report

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. ("FDZJ" or "the Company") insists on pharmaceutical innovating with core concept of owning full intellectual property right. The Company respects basic human values for not only clients but also employees. The Company pursues its social meaning and emphasizes its contributions and responsibilities to environment and society. In accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Guide") set out in Appendix 27 of the listing rules published by Hong Kong Stock Exchanges (HKEx), the Company presents 2016 ESG Report covers the main businesses of FDZJ, involving diagnostic reagent production and drug research, in the reporting period from 1 January 2016 to 31 December 2016.

## A. ENVIRONMENTAL

Emphasizing both on economic benefit and environmental protection, FDZJ makes great efforts to develop a long-term mechanism of environmental protection and energy saving to build a resource-saving and environment-friendly enterprise, by the guide of scientific development concept. FDZJ follows the environmental protection principles showed as below:




Emphasizing on environmental protection, the Company has established environmental protection management system to protect and improve environment, prevent pollution, protect health and make environmental protection coordinate with economic and social development. In accordance with the Company's *Environmental Protection Management Regulation*, the Company's environmental protection management network is composed of environmental protection management leading group and department heads. The management network is led by environmental protection management leading group which is headed by general manager. Based on actual situation, the Company published member list of environmental protection management leading group in formal document at the beginning of every year.

## A1 Emissions

FDZJ pays much attention to environmental protection and persists in the policy of "prevention first, prevention&treatment combination, comprehensive treatment". In accordance with *Environmental Protection Law of the People's Republic of China, Atmospheric Pollution Prevention and Control Law of the People's Republic of China, Water Pollution Prevention and Control Law of the People's Republic of China, Regulations of Shanghai on Environmental Protection* and other relevant laws and regulations, the Company developed *Environmental Protection Management Regulations* which combined the Company's actual situation with strict requirements for environmental protection to build national environmental protection model city in Pudong New District Shanghai. Strictly complying with *Environmental Protection Management Regulation*, the Company continuously improves design, used clean energy and resources, adopts advanced technologies and equipment, improves management and comprehensive utilization in production, by which pollutions are reduced from the source, resources are used more efficiently, generations and emissions of pollutants in productions and services are reduced or avoided, hazards to human health and environment are reduced or eliminated.

- *Wastewater and Air Emissions Management*

  – Wastewater treatment

    Industrial effluents such as water from washing floor, equipment and containers and domestic sewages such as flushing water and hand washing water are attributed to drug research and production of FDZJ. *Environmental Pollution Prevention Regulations and Standard Operation Regulation of Effluent Comprehensive Treatment Equipment* was developed to strictly control effluent emissions and comprehensively treat the effluents. Standard reached industrial effluents and domestic sewages are discharged into the municipal sewer systems for collective treatment after secondary biochemical treatment.

    Following effluent regulations, every department of the Company adopt primary treatment to effluents which cannot be directly discharged. Effluents are discharged in accordance with national standards, local standards and bio-pharmaceutical emission standards. The Company signed emission testing contract with qualified institution to regularly monitor effluents and air emissions. Emissions in Shanghai FDZJ are tested in accordance with the *Discharge Standard of Pollutants for Bio-pharmaceutical Industry*. After bio aeration treatment, industrial effluents produced by Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. are discharged into the municipal sewer systems in accordance with third-level discharge standard of *Integrated Wastewater Discharge Standard*.

    If sudden environmental pollution accident occurs, the Company will communicate with functional department and actively take rehabilitation measures to prevent the situation from getting worse. The causes of pollution will be analyzed and relevant corrective measures will be developed and implemented. The final report will be submitted to company leaders and relevant functional department.

– Air emissions treatment

Exhaust air, such as volatile organic compounds, and dust is attributed to drug research and diagnostic reagent production of FDZJ. Exhaust air generated in the process of production should be controlled and the air emissions and dust concentrations should not exceed requirements of *Industrial Air Emissions Standard of Shanghai. Standard Operation Program of Air Emission Treatment Equipment* was developed to regulate and control operation of air treatment equipment to make the air emissions reach relevant standard.

The Company strengthens equipment inspection, monitors water quality in absorption cell and regularly or irregularly changes absorption liquid in the cell according to production and operation situation. The Company communicates with relevant department in the process of equipment failure or maintenance to prevent harmful and untreated exhaust air discharged to the atmosphere.

- *Waste management*

Industrial hazardous wastes such as waste chemical reagent, organic and inorganic waste liquid from laboratory, waste activated carbon and laboratory waste, and non-hazardous wastes such as general industrial wastes and domestic wastes, are attributed to drug research and production of FDZJ. The Company requires departments to fill in the Application Form for Industrial Waste Treatment which included material name, packing specification, chemical property, component, content, amount, waste form and waste reason in accordance with *Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes, Regulations of Shanghai on the Prevention and Control of Pollution by Hazardous Wastes* and other relevant laws and regulations and the Company's *Regulations on Treatment and Management of Industrial Wastes*. The form is checked and archived by dedicated management personnel after approved and signed by leader of competent authority. Wastes are stored in specified waste storage tank or treated in neutralization pond accompanied by dedicated management personnel. The Company strictly manages industrial wastes and requires waste liquid to be stored in sealed or corrosion-resistant container and solid wastes to be stored in tough packing materials. Name of special industrial hazardous wastes is labelled on the packing materials and the component of the wastes are provided before treatment. According to principles of collective treatment and zero pollution for hazardous wastes and solid wastes, industrial wastes generated in production are treated by professional institutions which have *Shanghai Hazardous Wastes Disposal Permit* and hazardous treatment qualification certificate, and non-hazardous wastes were collected and treated by sanitation department. Besides, the Company has registered Solid Waste Management Information System in Shanghai and Taizhou from 2013 to monitor hazardous wastes and general solid wastes treatment which played a good role supervision.

- *Green Gas*

  Indirect green gas emissions (scope two) are mainly resulting from electricity consumed of production equipment and in workplaces of FDZJ. Direct green gas emissions (scope one) are resulting from natural gas used by boiler, naphtha and diesel oil used by vehicles and small number of fire extinguishers. The Company makes efforts to reduce green gas emissions by improve energy efficiency. Detail measures are showed in section A2 Use of Resources.

## A2 Use of Resources

The resources used by FDZJ are principally attributed to electricity, water, natural gas, and naphtha and diesel oil consumed in production. In accordance with *Law of the People's Republic of China on Conserving Energy* and other national, local, industrial policies, laws and standards on conserving energy, the Company has developed *Management Procedure of Energy and Resources* to effectively and reasonably use energy and resource, improve usage efficiency, reduce waste and implement the principles of saving energy, reducing consumption, reducing pollution, and improving efficiency.

The Company continuously improves energy management system, sets energy-saving target and tasks, and improves the energy efficiency indicators and motivates departments to save energy by promoting energy-saving performance management.

- According to amount of energy consumed for every unit of economic output calculated by actual energy consumption and economic output of the previous year in every department, the Company develops reduction percentage as energy-saving target for every department.

- In accordance with *Management Procedure of Energy and Resources*, every department heads should develop energy-saving target for their department according to the Company's energy-saving target, actual energy consumption of previous year and annual production plan.

- Manufacturing department develops consumption reduction amount in normal production for the whole year according to manufacturing resources consumed for every unit product in the first half year. Equipment purchase should meet the requirement of saving energy and resources. Environmental requirements should be made to meet relevant standards of environmental management system.

- Requirements of saving energy and resources should be made in construction projects and assessment should be implemented at the same time of pre-construction, mid-construction and acceptance.

- Departments of using production resources should improve usage of raw materials, take measures to reduce reject rate, gradually reduce resources used for unit product, perform statistics and analysis on resources loss, and make solutions and its agenda and responsible person.

- Heads of every department supervise and examine energy and resource saving of their department under the Company's supervision. Responsible persons are examined for their regular statistics on energy and resources consumption of examined department. Reason analysis should be conduct for the projects which did not complete energy-saving plan. Relevant measures should be made and the implementation of the measures should be supervised and examined.

The Company seasonally adjusts the high electricity consumption equipment such as air conditioner in clean plant to reduce load. After energy-saving reconstruction, warm water generated in heat source of water equipment, such as heat exchange of cooling water in distilled water machine and pure steam generator, was used as boiler makeup water. This could recycle boiler water, reduce cooling water discharge, preheat boiler feed water, reduce boiler heat consumption, save energy and reduce emissions.

### A3 the Environment and Natural Resources

The resources used by FDZJ are principally attributed to electricity, water, natural gas, and naphtha and diesel oil consumed in operation which were showed in section A2 Use of Resources. The Company does not use a lot of other environment and natural resources, so this aspect does not applicable.

## B. SOCIAL

FDZJ implements management culture of human orientation to create harmonious and win-win labor relation.

### B1 Employment

In accordance with *Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China* and relevant laws and regulations, FDZJ has adopted *Employee Handbook, Labor Management Policy, Employee Evaluation Policy, Employee Compensation Management Policy, Attendance Management Policy, Evaluation Policy for Department Manager* and other normative documents for the benefit of its employees.

- *Recruitment and Dismissal*

  The Company has formulated *Labor Management Policy* and required every department to make recruitment plan conforming to the principle of capable, efficient and putting quality than quantity. The Company recruits talents through open recruitment and employee referral according to the principle of compete openly and select the best. The Company selects employees by work attitude, applicable ability, knowledge, experience, potential and teamwork, without regard to gender, age, race, skin color and national origin. All employees of the Company in the PRC are entitled to an employment contract according to relevant laws and regulations at the start of their employment. The Company has formulated standard examination and approval procedures of resignation and dismissal and standard procedures of work handover to meet requirements of *Labor Contract Law of the People's Republic of China*.

- *Compensation and Benefits*

  The Company has continuously improved compensation and benefits system and formulated *Employee Handbook, Labor Management Policy,* Employee Compensation system to provide reasonable treatment for employees and retain talents.

  The Company provides competitive remuneration and continuously improves remuneration management and incentive system by fair and reasonable remuneration management and incentive system. The Company implements classified job subsidy system. The job subsidy levels are determined position responsibility and different knowledge, experience and ability requirements for different positions. The remuneration consists of standard salary, subsidy, benefit, performance distribution and award.


  In accordance with national regulations, the Company contributes to various public funds for each employee, including a public pension fund, a public housing fund, a medical insurance fund, an unemployment insurance fund, labor union expenditure, education expenditure, benefit expenditure and other commercial insurance and subsidies beside mandated benefits.

- *Communication and Democracy*

  The Company encourages employees to keep equal dialogue between same levels or between higher and lower levels to build harmonious relationship and communication and make efficient and cooperative work atmosphere.

  Direct supervisor, department manager or administration personnel department helps employees on work satisfaction promotion, labor security, occupational psychology guidance and complaint treatment. If any employee has problem that could not solve or complaint and rationalization suggestion, he/she could communicate with one of the direct supervisor, department manager and administration personnel department. Administration personnel department takes charge of collecting rationalization suggestion on company development and management from employees and ensure accurate delivery.

- *Holidays and Working hours*

  To ensure employees have rights of work, rest and vacations and perform labor obligations, the Company has formulated *Employee Handbook, Attendance Management Policy* and other normative documents in accordance with *Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China, Employment Promotion Law of the People's Republic of China, Employ Regulations* and relevant laws and regulations. The Company effectively implements national working hour regulations at the same time of implementing attendance management. The company's employees work on a standard 8 hours per day and 5 days per week. Employees are entitled to overtime pay if they obtain prior approval from their manager.

  According to *Employee Handbook*, the Company provides employees paid days off from work for national public holidays, maternity leave, compassionate leave, medical treatment period and sick leave, personal leave and injury leave. Employees working for more than one year could have paid annual leave and marriage leave.

- *Anti-discrimination*

  Every department, organization and personnel of the Company should employ not discriminate any employee on race, gender, skin color, age, family background, tradition, religion, physical quality, national origin and other personal characteristics and provide recruitment, labor, salary, training, promotion and subsidy equally, fairly and openly.

- *Diversity*

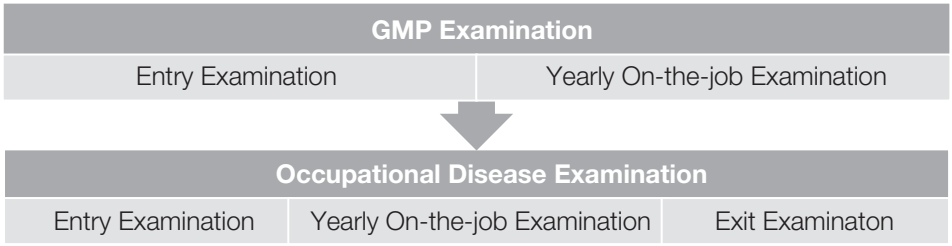
  The Company pays close attention to various demand of employees and organized colorful events. The Company organized 1-2 company-wide events and 3-5 days department-wide outing according to actual situation. Every department has team building expenditure and every employee has tour expenditure every year.

## B2 Health and safety

FDZJ makes efforts to safeguard employees' occupational health and safety, provide safe working environment and equipment, and implement safe working behavior. *Emergency Plan for Work Safety Accident of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd., Laboratory Safety Management Policy, Pressure Vessel Management Policy, Management Policy for Production Safety Education and Training, Production Safety Inspection Management Policy, Management Policy for Safety Utilization of Electricity, Construction Safety Contract for Contractor, Fire Safety Management Policy, Equipment Accident Management Policy, Management Policy for Safety Certificate of High Altitude Operation* and other regulations and procedures have been formulated to define clear responsibility, prevent accident, manage normal operation of the Company, ensure safety of employees and equipment as well as property, and fulfill the Company's commitment to protecting environment, occupational health and safety.

- *Health Examination*

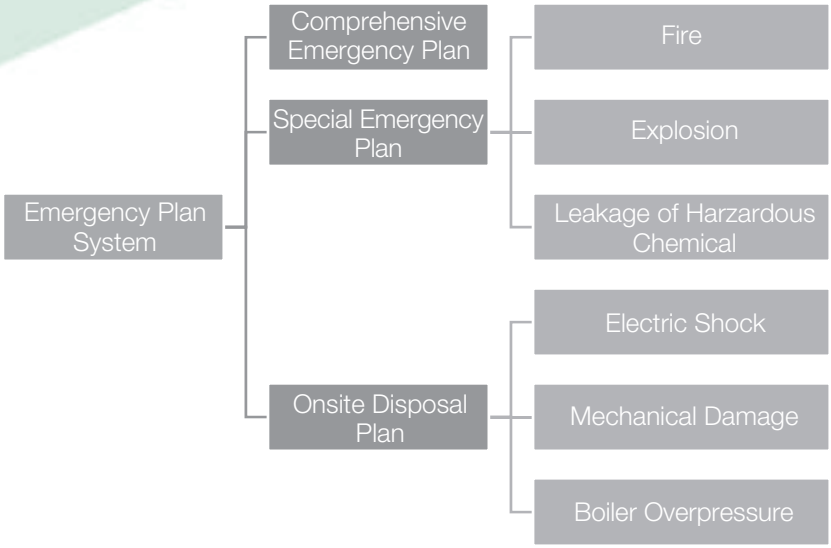
  The Company provides health examination for employees once per year, which includes Good Manufacturing Practices ("GMP") examination and occupational disease examination.



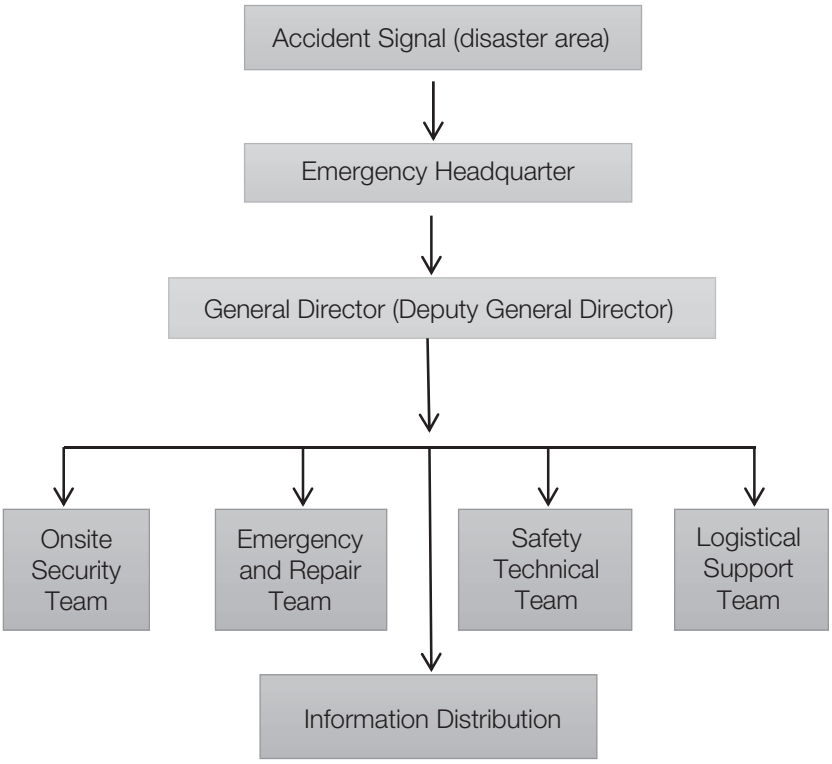

- *Emergency Management for Safety Accident*

  In accordance with *Work Safety Law of the People's Republic of China, National Emergency Plan for Work Safety Accident, Guidelines for Enterprises to Develop Emergency Response Plan for Work Place Accidents, implementing rules of Measures for the Administration of Emergency Plans for Work Safety Accidents of Shanghai, Work Safety Regulations of Shanghai* and other laws and regulations, conforming to the principle of reporting in time, responding rapidly and human oriented, the Company has formulated *Emergency Plan for Work Safety Accidents* to protect employees' life safety, reduce property loss, implement emergency rescue rapidly, efficiently and orderly after accident.

After risk assessment on hazardous source, the Company has identified major hazardous element and work place, and formulated emergency plan system which consisted of three levels as shown in the figure.




To strengthen organization and management of emergency activities, the Company has established emergency headquarter showed as below:



- *Fire and Explosion Prevention*

  Conforming to the principle of prevention first and human oriented, FDZJ has developed *Fire Special Emergency Plan for Work Safety Accident, Explosion Special Emergency Plan for Work Safety Accident, Emergency Plan for Fire Explosion and Chemical Accident, Hot Work Management Policy* and other regulations to treat and control accident rapidly and orderly, prevent pollution, protect production safety and employee life safety, and reduce loss and damage to minimum when chemical, fire and explosion accident happens.

  Conforming to policy of safety first, prevention first and comprehensive treatment, the Company combined accident emergency with prevention work, and enhance management to hazardous sources to do good accident prevention, prediction, warning and forecast. The Company has prepared emergency supplies such as fire pump station, fire hydrant, fire hammer, alarm button, fire telephone, voice-activated alarm, fire sprinkler, smoke detector, fire equipment, manual fire alarm button and evacuation and location map etc. Supplies and equipment was checked once every month to make employees could use nearest emergency supplies in case of emergency accident.

- *Hazardous Chemicals*

  To standardize management regulations for hazardous chemicals and protect life safety, production safety and property safety, the Company has formulated *Management Regulations for Toxic Inflammable and Explosive Hazardous Materials* to regulate purchase, acceptance, entering, storage, distribution and usage of toxic inflammable and explosive hazardous materials, and treatment and emergency treatment of wastes.

  For daily management of hazardous chemicals, the regulation required that: toxic and hazardous chemicals should be managed by special personnel; management personnel should be attend professional training in chemicals and fire protection; hazardous materials should be stored by category according to minimum safety storage amount, and passageway between stacking should have enough safety distance; dedicated place holding chemicals should have relevant safety measures such as ventilation, anti-explosion, fire protection, lightning protection, extinguishment and sunblock according to materials' type and property; hazardous chemicals, which easily burn, explode and produce toxic gas in case of fire or moist, should not be stored in place which is open, humid, low-lying and easy to collect water.

The Company destroyed hazardous chemicals in accordance with *Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes, Regulations of Shanghai on the Prevention and Control of Pollution by Hazardous Wastes* and other relevant laws and regulations.

The Company has developed standard operation procedure of Safety Protection for Doxorubicin Hydrochloride Operation. Storage of doxorubicin hydrochloride should be locked. Doxorubicin hydrochloride wastes should be discard after innocent treatment or treated by qualified institutions. Anyone who uses doxorubicin hydrochloride should be trained before use it. Doxorubicin hydrochloride should be avoided to touch skin and eyes. The Company has provided proper safety protection equipment in places producing dust to reduce environmental pollution and human damage.

- *Production Safety Education and Training*

According to *Emergency Plan for Work Safety Accidents,* conforming to policy of safety first, prevention first and comprehensive treatment, the Company regularly organizes trainings and emergency exercises to strengthen employees' safety awareness and emergency ability. Accident reasons and rescue experience was summarized and propaganda and educations of them were well done. The Company's safety production leading group takes charge of propaganda of laws, regulations, prevention of production safety accident, risk avoidance, disaster avoidance, and common sense of self-rescue and mutual-rescue to all employees.

The Company has developed *Management Policy for Production Safety Education and Training* to ensure safe production and strengthen safety awareness education. The Company organized safety education and trainings on three levels, including company level (level 1), workshop or department level (level 2), section or group level (level 3). Employees should pass the examination before taking up the posts.

The Company's safety production leading group irregularly organize safety education and trainings according to actual demand. The pressure vessel operator, electrician, high matchs electrician, metering personnel, driver and other special operation personnel should take technical training and get certificates from competent authority before taking special operation, or they are not allowed to work by themselves.

- *Occupational Hazard Factors Testing*

  FDZJ entrust qualified inspection and testing institution with inspection and testing on occupational hazard equipment, protection equipment and personal protection equipment. Occupational hazard factors testing report is provided by the institution.

## B3 Development and Training

The company respects talents and uses sound regulations to select talents and excite employees' potential. In accordance with *Employee Handbook,* the Company provided various type of trainings according to work and employees' career need, including entry training, internal training and external professional trainings etc. *Management Policy for Production Safety Education and Training* has been formulated to regulate trainings and continuing education, develop and promote employees' professional skill, and develop employees' and company's benefits at the same time.

| | |
|---|---|
| **Entry training** | Administration personnel department organizes entry training in one week within the employee join the company. |
| **Internal training** | Internal training includes training by internal trainer and external trainer. Attendance and training record should be made and archived. |
| **Work license training** | Work license training and continuing education training should be taken according to work demand. |
| **Professional training** | The Company arranges some employees take external professional trainings according to technical and business development demand. |

To promote employees' interpersonal communication and teamwork, the Company has founded teamwork training fund to provide expenditure for every department, and developed Regulations of Use of Teamwork Training Fund to specify fund limit and use.

## B4 Labour Standard

In accordance with the *Labor Law of the People's Republic of China, Labor Contract law of the People's Republic of China, Provisions on the Prohibition of Using Child Labor* and other laws and regulations, FDZJ prevented using child labor and forced labor. According to *Labor and Personnel Regulations,* all new employees' identification card should be checked before they entry the Company to ensure their age meets requirements of laws and regulations. Besides, according to Attendance Regulations, if employee have to work overtime, he/she should apply to department manager and get the manager's approval. In the report period, the Company did not use child labor and force employees to working overtime.

## B5 Supply Chain Management

Supplier management is one of the most important parts of quality management for medical company. Stability, safety and effectivity of product quality is directly influenced by the selection of suppliers.

The Company has formulated *Supplier Management Policy* to regulate the operational procedures of evaluation and approval for material suppliers, and clarify the suppliers' qualification, selection principle, quality evaluation methods, evaluation standard, and approval procedure for material supplier. In accordance with this regulation and procedure, the Company take the following measures to manage the suppliers:

In the procedure of selecting suppliers, the Company requires the suppliers should have relevant qualification certificates, and preliminarily selects suppliers as below principles:

- Prior selecting suppliers purchasing materials to ensure single source and quality control of materials.
- Prior selecting suppliers passing GMP inspection;
- Prior selecting suppliers passing quality certificate;
- Selecting suppliers having good reputation;
- Selecting suppliers having enough supply capacity.

Dealers should provide certificates from manufacturer and provide batch information documents from manufacturer for each time of product supply (for example: inspection report or quality certificate), by which material quality was controlled.

The Company conducts risk assessment for suppliers and assesses and control suppliers based on assessment result. Quality management department of the Company conduct nominal audit and on-site audit based for material suppliers on the result of risk assessment:

**Nominal Audit** 1

- Quality management department evaluates supplier by information from completed questionnaires. Assessment result showed that production quality system of suppliers meets the requirements.

**On-site Audit** 2

- Quality management department organizes related department (Logistics departement and manufacturing department) to set up audit team. The audit covers personnel institutions, facilities and equipment, material management, production process and management, and equipment, instruments and documents management of quality control laboratory. The audit verifies authenticity of qulification certificates and testing reports of suppliers, and check if they have testing condition.

The Company conducts continuous testing to effectiveness of approved suppliers, including annual review and regular audit. Annual review includes testing result of quality testing, quality complaints and unqualified management records etc., by which the risk of supplier is further assessed. The Company will increase audit frequency, change nominal audit to on-site audit or immediate audit in the circumstances that supplier have quality issues, production condition, technology, quality standard, inspection methods and other significant factors influencing quality have great change, or the quality management think it is necessary.

The Company has formulated Materials Purchase Management to regulate management and procedure of material purchase and control rationality and normalization of purchasing process.

Besides, the Company has developed Regulations on Anti-Commercial Bribery to guide stakeholders including suppliers to follow the law, resist corruptions and fulfill social responsibilities.

## B6 Product Responsibility

With the company tenet of More Exploring More Healthy, FDZJ constantly develop new drugs on multiple research and development platforms. In accordance with *Pharmaceutical Administration Law of the People's Republic of China, Regulations for Implementation of the Drug Administration Law of the People's Republic of China, Product Quality Law of the People's Republic of China, Regulations for Pharmaceutical Production, Regulations for Reporting and Monitoring Drug Adverse Reaction* and other laws and regulations, the Company take measures to ensure quality and safety, and protect consumers' rights.

## 1. *Quality Management*

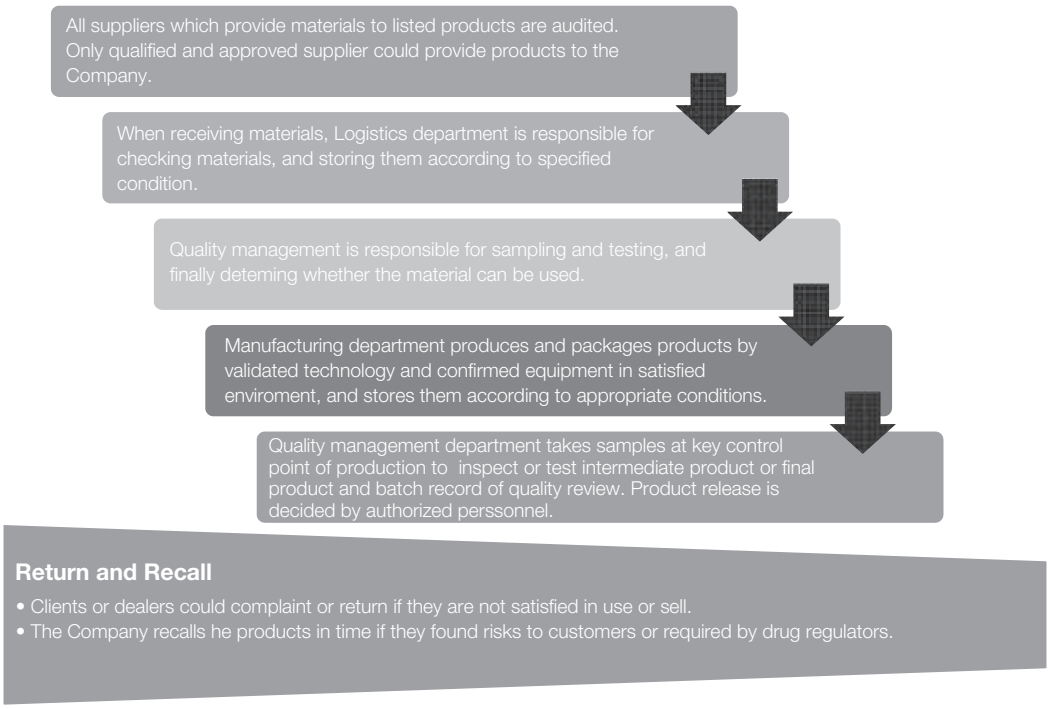
In the production process, the Company strictly controls product quality to win the market. The Company follows requirements of GMP to control quality.

- Chinese Good Manufacturing Practices for Pharmaceutical Products ("GMP")

To provide the best quality products for clients, the Company has developed complete quality management system according to GMP and principle of quality management. The system which covers all the factors affecting medicine quality is developed to minimize risks such as pollution, cross contamination, confusion and errors in drug production. The Company has developed complete GMP documents system including personnel, equipment, material, production, testing, quality assurance and post-marketing surveillance etc. to manage and operate every part.

The Company has established quality risk management procedure which is applied to whole quality management, including supplier management, corrective and preventive measures, quality complaint, validation, production management, laboratory management, intermediate control and change control etc.

The Company has specified the product realization process and responsibilities of every department, showed as below:



The Company implement internal audit regularly to confirm whether the quality management system meet the current drug production quality management regulations and whether the quality management system is implemented and maintained effectively.

- Material and Product Inspection Management

  According to *Chinese Good Manufacturing Practices for Pharmaceutical Products* and *Chinese Pharmacopoeia*, the Company has formulated *Material and Product Inspection* management procedures, to regulate inspection basis, requirements and result processing operation procedure for materials and products such as raw materials, packaging materials, intermediate products and final products. Packaging materials standard usually includes sampling inspection and the physical and chemical inspection. Inner packaging materials standard usually includes microbiological inspection. Sampling inspection can be finished on-site and physical and chemical inspection and microbiological sampling should be finished in laboratory. The inspection should use inspection methods in quality standard or annex of the standard. Inspection in laboratory and record should comply with GMP management regulations and relevant requirements in *General Notice of Chinese Pharmacopoeia*. Inspection report should be prepared after inspection and quality certificate should be issued for products to ensure quality of materials and products.

  The Company has developed *Materials and Products Destruction Management* according to *Chinese Good Manufacturing Practices for Pharmaceutical Products* to regulate materials and products destruction procedure and control destruction process.

- GMP Certificates

  The small volume parenternal solutions (antineoplastic drugs), bulk drug (aminolevulinic acid hydrochloric) and powders have got GMP certificates from state food and drug administration.

### 2. *Advertising and Labeling Management*

The Company manages labeling and advertising by laws to protect consumers' rights and maintain brand image. The Company conforms to requirements of *Advertisements Law of the People's Republic of China, Regulations on Management of Medical Advertising, Drug Administration Law of the People's Republic of China, Provisions for Drug Advertisement Examination, Good Manufacturing Practices (2010 revision)* and other laws and regulations. The Company has formulated *Design and Change of Packing Materials* to manage design and change of packaging materials used for new products or additional existing products to make the product package conform to characteristic of products, demand of market, technical conditions and provisions of national laws and regulations.

Design draft of label, manual and package should include product specifications, packaging specifications, size requirements, material requirements, appearance requirements, packaging safety requirements and other specific contents which are reviewed by marketing department, manufacturing department, logistics department, quality management department and quality authorized personnel.

### 3. *Consumer Services*

Upholding the principle of honest, the Company tries best to provide accurate consumption information, protect consumer's right to know, and provide reliable services for consumers. In accordance with *Law of the People's Republic of China on the Protection of Consumer Rights and Interests* and other laws and regulations, the Company has developed Product Complaint management procedure to regulate procedure of complaint registration, evaluation, investigation and treatment and measures for complaint of possible product defects. Quality problems from consumers should be solved immediately and effectively to improve consumers' satisfaction.

According to the Product Complaints management regulations, any department or personnel receiving customers' complaints should forward them to sales department and quality management department. Quality management department take charge of organizing investigation and treatment of customers' complaints related to product quality, approving relevant corrective and preventive actions plan, assisting sales department to reply to customers and reporting to competent authorities if necessary. Sales department assists quality management department to investigate complaint, provides and implements sales measures, communicates with customers and answers the complaint.

Customers could complaint by oral, telephone, mail, fax, visiting or other form to the Company. The Company regularly reviews complaints, and usually reviews and analyzes trend of product complaint in product quality review.

The Company pays attention to medical safety of patients and monitoring and reporting of adverse drug reactions. In accordance with *Regulations on Reporting and Monitoring of Adverse Drug Reactions*, the Company has developed relevant management regulations on reporting and monitoring of adverse drug reactions, established procedure of reporting and monitoring of adverse drug reactions, actively monitored adverse reactions and reported to national adverse reaction monitoring center.

## B7 Anti-corruption

The Company continuously strengthens internal control and supervision mechanism, upholds integrity management, and strictly conforms to rules of fair competition. According to *Employee Handbook and Regulations on Anti-Commercial Bribery*, employees should be honest and self-discipline, comply with regulations on anti-commercial bribery in *Anti-Unfair Competition Law of the People's Republic of China and Criminal Law of the People's Republic of China*, and management regulations on honesty and self-discipline, follow principle of law-abiding, honest, fair and scientific, resolutely refused to commercial bribery, bribery and other improper business practices. The Company will report personnel suspected of crimes to relevant department.

Administration personnel department arranges new employees to study regulations on anti-commercial bribery, records the training and requires each new employees to sign on the record. Internal audit and control department is responsible for supervision of commercial bribery, implementing and training related to relevant national laws, regulations, policies, and the Company's regulations on commercial bribery, supervision and management of personnel on important position, and changing and updating the Company's relevant regulations according to national laws and regulations and the Company's actual situation to promote anti-corruption and anti-commercial bribery in business.

When the Company provides medical procurement services to medical and health institutions according regulations of *Notice of National Health and Family Planning Commission General Office on Relevant Work of Implementation of Commercial Bribery Bad Record in Medical Procurement Area*, it signs integrity pharmaceutical products procurement contract for medical and health institution when sign the purchase contract, and signs integrity service commitment according to requirements of local laws and regulations committing no bribery and fraud in whole process to further strengthen the construction of medical and health industry culture, standardize pharmaceutical sales to medical institutions, and create fair and honest marketing environment.

## B8 Community Investment

At the same time of creating value for shareholders and creating wealth for customers, FDZJ actively devotes itself to public services, pays attention to vulnerable groups and difficult people, fulfills social responsibilities, and promote harmonious development of community, company and regional economy. The Company has established Management Regulations of Charity and Public Benefit Activities to regulate community investment activities.

Example: Chunhe Dream Plan

Chunhe Dream Plan is a public benefit project launched and operated by Shanghai Chunhe Youth Development Center paying attention to training of scientific literacy and innovative thinking and the project fund is donated from the society. Based on understanding and agreeing with Chunhe Dream Plan and charitable purpose, FDZJ signed Donation Agreement of Public Benefit Project in September 2016 to Shanghai Chunhe Youth Development Center through Shanghai Charity Foundation Pudong Branch, which is used to support Chunhe Dream Plan.

# Profiles of Directors, Supervisors and Senior Management

## DIRECTORS

### Executive Directors

**Wang Hai Bo**, aged 56, was appointed as an Executive Director in November 1996. He is also the chairman of the Board and general manager of the Company. He is also the chairman of board of directors of Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd.and Shanghai Ba Dian Medicine Co., Ltd. ("Ba Dian") as well as the director of Fernovelty (Hong Kong) Holding Co., Ltd., which are the subsidiaries 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 52, was appointed as an Executive Director in January 2002. He is also the deputy general manager of the Company as well as the director of Ba Dian. 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 46, was appointed as an Executive Director in January 2002. He is also the deputy general manager and an authorized representative of the Company. At the same time, he is the chairman of the board of directors of Shanghai Tracing Bio-technology Co., Ltd., and the director of Ba Dian which are the subsidiaries 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 48, 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.

**Shen Bo**, aged 44, was appointed as a Non-executive Director in June 2012. He has passed the PRC Certified Public Accountants examination. He is an executive director, a vice president and the chief financial officer of Shanghai Pharmaceuticals Holding Co., Ltd., and concurrently appointed as a supervisor of Shanghai Pharmaceuticals Distribution Co., Ltd., a director of SPH Keyuan Xinhai Pharmaceutical Co., Ltd., chairman of Changzhou Pharmaceutical Co., Ltd., a director of Shanghai Pharma Northern Investment Co., Ltd., a director of Chiatai Qingchunbao Pharmaceuticals Co., Ltd., a director of SPH Dongying(Jiangsu) Pharmaceuticals Co., Ltd., a director of China International Pharmaceutical(holding) Corporation limited, the chief supervisor and director of Shanghai Pharmaceuticals Grand Health Commerce Company Limited and the chairman of Xiamen Traditional Chinaese Medicine Co., Ltd. and the chairman of Shanghai Hefeng Pharmaceuticals 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 Pharmaceuticals Co., Ltd. from 2006 to 2010, chief financial officer of Shanghai Pharmaceuticals Holding Co., Ltd. from March 2010 to November 2015, chief financial officer and board committee secretary of Shanghai Pharmaceuticals Holding Co., Ltd. from November 2015 to June 2016, executive director and chief financial officer of Shanghai Pharmaceuticals Holding Co., Ltd. from June 2016 to August 2016, executive director, vice president and chief financial officer Shanghai Pharmaceuticals Holding Co., Ltd. from August 2016 up to now. 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 60, 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 and found 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 mergers and acquisitions and corporate finance. She graduated from International Management Institute (Geneva), predecessor of International Institute for Management Development, with a master's degree in Business Administration in May 1982.

## Independent Non-executive Directors

**Zhou Zhong Hui**, aged 69, was appointed as an Independent Non-executive Director on 30 May 2013. He is the managing director of China Association of Chief Financial Officers and 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 listed on the Shanghai Stock Exchange (Shanghai Stock Code: 603885) since 29 June 2014. He has been an independent non-executive director of SF Cmi Holdings Ltd., a company listed on the Shenzhen Stock Exchange (Shenzhen Stock Code: 002352) since 26 December 2016. He used to be a member of the

International Advisory Committee of the China Securities Regulatory Commission from 2011 to 2016. He used to be a member of the Audit Regulation Committee of Chinese Institute of Certified Public Accountants. 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 62, 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). 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 in November 2002. He has been an independent non-executive director of Kate China Holdings Limited, a company listed on the Shanghai Stock Exchange (Stock Code: 8125) since 30 June 2014 and resigned on 17 September 2016. 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 nonexecutive director of Spring Asset Management Limited, which is the manager of Spring Real Esate 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 Shipping Ports Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1199) since 14 August 2015. 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. And he has been an independent non-executive director of WWPKG Holdings Company Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8069) since 16 December 2016.

**Xu Qing**, aged 52, was appointed as an Independent Non-executive Director on 29 May 2015. 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 43, was appointed as a shareholder representative Supervisor in May 2015. 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.

**Zhang Man Juan**, aged 52, was appointed as an employee representative Supervisor 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.

**Wang Luochun**, aged 47, 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.

**Guo Yi Cheng**, aged 70, 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.

**Liu Xiao Long**, aged 59, was appointed as an independent Supervisor in May 2016. He is the chairman of the board and the chief executive officer of Jiuyou Capital Co., Ltd. (上海久有股權投資基金管理有限公司). He worked as the general manager of Shanghai Wai Gao Qiao Free Trade Zone New Development Co., Ltd. (上海市外高橋保税區新發展有限公司), the chairman of the board of Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd.(上海張江高科技園區開發股份有限公司) (a company listed on the Shanghai Stock Exchange whose stock code is 600895) and the deputy director of Shanghai Zhangjiang Hi-Tech Park management committee. He was also a member of the standing committee of Shanghai Association for Science and Technology. He graduated from Shanghai Jiao Tong University mechatronics branch campus with a bachelor degree.

## SENIOR MANAGEMENT

**Li Jun**, aged 48, 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 54, 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 merger and acquisition 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 the 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 54, 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 35, 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 an international 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

pwc

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)

## OPINION

### What we have audited

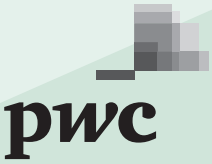
The consolidated financial statements of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 97 to 164, which comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2016;
- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of cash flows for the year ended 31 December 2016;
- the consolidated statement of changes in equity for the year ended 31 December 2016; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*
*T: +852 2289 8888, F: +852 2810 9888,* www.pwchk.com



羅兵咸永道

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of this report.

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

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

pwc 羅兵咸永道

## KEY AUDIT MATTERS (continued)

The following key audit matter is identified in our audit:

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| ***Capitalisation of development costs***<br>*Refer to notes 2.26, 3(b)(iii) and 18 to the consolidated financial statements.*<br><br>As part of its principal activities, the Group researches and develops various bio-pharmaceutical know-how and medical techniques for future commercialisation. The Group incurred total research and development expenditure of RMB 111.90 million during the year ended 31 December 2016; of which RMB 95.05 million was expensed whereas RMB 16.85 million was capitalised in accordance with the accounting policy set out in note 2.26.<br><br>We focused on this area mainly due to the size of the research and development expenditure incurred, a portion of which being capitalised and the fact that there is judgement involved in assessing whether the criteria set out in the accounting standards for capitalisation of development costs for each individual project have been met, particularly:<br><br>• The technical feasibility of the project; and<br><br>• The likelihood of the project delivering sufficient future economic benefits. | We obtained a detail listing of all individual research and development projects with expenditure incurred and amounts capitalised in the year, reconciled to the general ledger and agreed sample items to supporting evidence.<br><br>For projects with amounts capitalised during the year, we challenged management's assessment as to why they considered those amounts were development costs to be capitalised in nature, in particular on technical feasibility and future economic benefits of the projects.<br><br>We assessed the appropriateness of management's judgement on technical feasibility by reference to relevant available approval, certificate or registration from/with government authorities, technical milestone reports or the Group's past history of successful development projects.<br><br>For management's judgement on future profitability, we challenged key assumptions used and also the sensitivity thereon. We corroborated the key assumptions of market scale, market share, gross profit and challenged whether these were appropriate in light of historical experiences, relevant market studies or other similar products.<br><br>We also evaluated the sensitivity analysis around the key assumptions used in the forecast to ascertain the extent of change in those assumptions that would have negative impacts on the future profitability.<br><br>We found that management's accounting for capitalisation of development costs was properly supported by the available audit evidences. |

pwc 羅兵咸永道

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the Company's 2016 Annual Report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

pwc 羅兵咸永道

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

pwc 羅兵咸永道

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the audit committee all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Esmond S.C. Kwan.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 16 March 2017

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

| | Note | Year ended 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Revenue | 4 | **621,870** | 579,463 |
| Cost of sales | 6 | **(46,512)** | (50,014) |
| **Gross profit** | | **575,358** | 529,449 |
| Other income | 5 | **61,772** | 72,920 |
| Research and development costs | 6 | **(95,046)** | (110,116) |
| Distribution and marketing costs | 6 | **(349,838)** | (309,038) |
| Administrative expenses | 6 | **(36,485)** | (28,876) |
| Other operating expenses | 6 | **(644)** | (1,283) |
| **Operating profit** | | **155,117** | 153,056 |
| Finance costs | 7 | **(4,279)** | (7,106) |
| **Profit before income tax** | | **150,838** | 145,950 |
| Income tax expense | 10 | **(20,830)** | (18,903) |
| **Profit for the year** | | **130,008** | 127,047 |
| **Other comprehensive income/(losses):** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Currency translation differences | | **(94)** | – |
| **Total comprehensive income for the year** | | **129,914** | 127,047 |
| **Profit attributable to:** | | | |
| Shareholders of the Company | | **138,708** | 127,723 |
| Non-controlling interests | | **(8,700)** | (676) |
| | | **130,008** | 127,047 |
| **Total comprehensive income attributable to:** | | | |
| Shareholders of the Company | | **138,614** | 127,723 |
| Non-controlling interests | | **(8,700)** | (676) |
| | | **129,914** | 127,047 |
| **Basic and diluted earnings per share for profit attributable to the shareholders of the Company** | 13 | **RMB 0.1503** | RMB 0.1384 |

The notes on pages 103 to 164 are an integral part of these consolidated financial statements.

# Consolidated Balance Sheet

As at 31 December 2016

| | Note | As at 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Leasehold land payments | 14 | **30,968** | 31,760 |
| Property, plant and equipment | 15 | **304,233** | 297,001 |
| Goodwill | 16 | **8,937** | 8,937 |
| Intangible assets | 17 | **9,736** | 10,373 |
| Deferred costs | 18 | **52,503** | 36,393 |
| Investment in an associate | 20 | **–** | – |
| Deferred income tax assets | 21 | **4,933** | 5,186 |
| Other non-current assets | | **1,394** | 1,267 |
| | | **412,704** | 390,917 |
| **Current assets** | | | |
| Inventories | 22 | **23,663** | 9,958 |
| Trade receivables | 24 | **120,612** | 132,470 |
| Other receivables, deposits and prepayments | 25 | **45,363** | 29,140 |
| Amounts due from related parties | 26 | **3,584** | 8,240 |
| Cash and cash equivalents | 27 | **511,284** | 445,997 |
| Restricted cash | 27 | **3,543** | 3,543 |
| | | **708,049** | 629,348 |
| **Total assets** | | **1,120,753** | 1,020,265 |

# Consolidated Balance Sheet

As at 31 December 2016

| | Note | As at 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred revenue | 29 | **16,097** | 19,377 |
| **Current liabilities** | | | |
| Trade payables | 30 | **4,398** | 4,275 |
| Other payables and accruals | | **78,408** | 71,970 |
| Current income tax liabilities | | **10,642** | 12,368 |
| Amount due to a related party | 31 | **3,690** | 3,690 |
| Borrowings | 28 | **120,000** | 125,000 |
| Deferred revenue | 29 | **14,464** | 17,745 |
| | | **231,602** | 235,048 |
| **Total liabilities** | | **247,699** | 254,425 |
| **Capital and reserves attributable to shareholders of the Company** | | | |
| Share capital | 32 | **92,300** | 92,300 |
| Reserves | 33 | **751,254** | 640,330 |
| | | **843,554** | 732,630 |
| **Non-controlling interests** | | **29,500** | 33,210 |
| **Total equity** | | **873,054** | 765,840 |
| **Total equity and liabilities** | | **1,120,753** | 1,020,265 |

The notes on pages 103 to 164 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 97 to 164 were approved by the Board of Directors on 16 March 2017 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 2016

| | Note | Year ended 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 34 | **163,166** | 115,568 |
| Interest paid | | **(4,062)** | (7,129) |
| Interest received | | **3,773** | 2,919 |
| Income tax paid | | **(22,303)** | (15,062) |
| Net cash generated from operating activities | | **140,574** | 96,296 |
| **Investing activities** | | | |
| Acquisition of subsidiaries, net of cash acquired | | **–** | (22,692) |
| Purchase of property, plant and equipment | | **(46,273)** | (38,250) |
| Additions to deferred costs | | **(7,544)** | (10,959) |
| Purchase of intangible assets | | **(549)** | (1,498) |
| Proceeds from disposal of property, plant and equipment | | **586** | 2,233 |
| Disposal of a subsidiary, net of cash disposed | | **–** | 1 |
| Investments in financial products | | **(1,295,550)** | (1,767,523) |
| Cash received upon maturity of financial products | | **1,302,133** | 1,776,816 |
| Net cash used in investing activities | | **(47,197)** | (61,872) |
| **Financing activities** | | | |
| Capital contribution from non-controlling interests | | **4,990** | 11,630 |
| Dividend paid to company's shareholders | | **(27,986)** | (45,854) |
| Proceeds from borrowings | | **180,000** | 185,000 |
| Repayments of borrowings | | **(185,000)** | (95,300) |
| Net cash (used in)/generated from financing activities | | **(27,996)** | 55,476 |
| **Net increase in cash and cash equivalents** | | **65,381** | 89,900 |
| Cash and cash equivalents at beginning of the year | | **445,997** | 356,097 |
| Exchange losses on cash and cash equivalents | | **(94)** | – |
| **Cash and cash equivalents at end of the year** | 27 | **511,284** | 445,997 |

The notes on pages 103 to 164 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

| | Attributable to shareholders of the Company | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| | Share capital (Note 32) RMB'000 | Capital accumulation reserve (Note 33) RMB'000 | Statutory common reserve fund (Note 33) RMB'000 | Retained earnings (Note 33) RMB'000 | RMB'000 | RMB'000 |
| Balance at 1 January 2015 | 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 |

# Consolidated Statement of Changes In Equity

For the year ended 31 December 2016

| | Attributable to shareholders of the Company | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| | Share capital (Note 32) RMB'000 | Capital accumulation reserve (Note 33) RMB'000 | Statutory common reserve fund (Note 33) RMB'000 | Retained earnings (Note 33) RMB'000 | Currency translation reserve RMB'000 | RMB'000 | RMB'000 |
| Balance at 1 January 2016 | **92,300** | **412,293** | **40,598** | **187,439** | **–** | **33,210** | **765,840** |
| Profit/(loss) for the year 2016 | **–** | **–** | **–** | **138,708** | **–** | **(8,700)** | **130,008** |
| **Other comprehensive income/(losses)** | | | | | | | |
| Currency translation differences | **–** | **–** | **–** | **–** | **(94)** | **–** | **(94)** |
| **Total comprehensive (loss)/income for the year 2016** | **–** | **–** | **–** | **138,708** | **(94)** | **(8,700)** | **129,914** |
| **Total transactions with owners, recognised directly in equity** | | | | | | | |
| Capital contribution from non-controlling interests | **–** | **–** | **–** | **–** | **–** | **4,990** | **4,990** |
| Final dividend for the year 2015 | **–** | **–** | **–** | **(27,690)** | **–** | **–** | **(27,690)** |
| **Total transactions with owners, recognised directly in equity** | **–** | **–** | **–** | **(27,690)** | **–** | **4,990** | **(22,700)** |
| Appropriation to statutory reserve | **–** | **–** | **5,552** | **(5,552)** | **–** | **–** | **–** |
| Balance at 31 December 2016 | **92,300** | **412,293** | **46,150** | **292,905** | **(94)** | **29,500** | **873,054** |

The notes on pages 103 to 164 are an integral part of these consolidated financial statements.

## 1 BACKGROUND INFORMATION

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") was established in the People's Republic of China ("PRC") on 11 November 1996 as a limited liability company with an initial registered capital of 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 2016, the Company had direct interests of 65%, 69.77%, 84.68%, 50.04% and 100% in five 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"), Derma Clinic Investment Co., Ltd. ("Derma Clinic") and Fernovelty (Hong Kong) Holding Co., Ltd. ("Fernovelty Holding"), 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 relevant to the Group's operations and are mandatory for the first time for the Group's financial year beginning on 1 January 2016.

| | |
|---|---|
| Annual Improvements 2014 | The amendments include changes from the 2012-2014 cycle of the annual improvements project that affect 4 standards: IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IFRS 7 "Financial Instruments: Disclosures", IAS 19 "Employee Benefits" and IAS 34 "Interim Financial Reporting" |
| IFRS 10, IFRS 12 and IAS 28 (Amendments) | Amendments to "Consolidated Financial Statements", "Disclosures of Interests in Other Entities" and "Investments in Associates and Joint Ventures" on applying the consolidation exception |
| IAS 16 and IAS 38 (Amendments) | Amendments to "Property, Plant and Equipment" and "Intangible Assets" on clarification of acceptable methods of depreciation and amortisation |
| IAS 1 (Amendments) | Amendments to "Presentation of Financial Statements" on disclosure initiative |
| IAS 27 (Amendments) | Amendments to "Separate Financial Statements" on using equity method to account for investments in subsidiaries, joint ventures and associates in separate financial statements |

The adoption of the above new amendments of IFRS starting from 1 January 2016 did not have any significant impact on the consolidated financial statements of the Group.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

#### (b) 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 Group is still in the process of assessing the impacts on adoption of these new standards and amendments and is yet to conclude whether or not it will result in substantial changes to the consolidated financial statements of the Group.

| | |
|---|---|
| IFRS 2 (Amendments) | Amendments to "Share-based Payment" regarding classification and measurement of share-based payment transactions |
| IFRS 10 and IAS 28 (Amendments) | Amendments to "Consolidated Financial Statements" and "Investments in Associates and Joint Ventures" regarding sale or contribution of assets between an investor and its associate or joint venture |
| IAS 7 (Amendments) | Amendments to "Statement of Cash Flows" regarding additional disclosure on changes in liabilities arising from financing activities |
| IAS 12 (Amendments) | Amendments to "Income Taxes" on how to account for deferred tax assets related to debt instruments measured at fair value |
| IFRS 9 | "Financial Instruments" |
| IFRS 15 | "Revenue from Contracts with Customers" |
| IFRS 16 | "Leases" |

## 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".

#### (iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting currency translation differences are recognised in other comprehensive income.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

### 2.9 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 depreciation or 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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", "Restricted Cash" and "Cash and cash equivalents" in the balance sheet (Notes 2.14 and 2.15).

*(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".

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 Financial assets (continued)

#### 2.11.2 Recognition and measurement (continued)

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.

### 2.12 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

### 2.14 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, 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 past expenses are recognised directly in the consolidated statement of comprehensive income.

Government grants relating to future 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

### 2.23 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

Subject to the terms as stated in the technology transfer agreements and the buyers' success in commercialisation of the technology being transferred, the Group 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.25 Revenue recognition (continued)

(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 or the remaining life of the patent for the new drug.

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 2,814,000 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 116,000 higher/lower.

## 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) Development costs

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 2016 to be written off or written down.

#### (iv) Government grants

When government grants are recognised, management determines whether they relate to past expenses, future costs or assets based on the nature of the grants and their purpose intended to compensate, and applies relevant accounting policies accordingly.

Government grants relating to costs are deferred, and management determines a proper calculation method and a relevant time period to recognise each of the grants in the consolidated statement of comprehensive income according to the intention of the grants and nature, duration and progression of the related projects so as to match the grants with costs they are intended to compensate. The calculation method and time period 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, manufacturing and selling of medical products in the PRC. Revenue recognised during the year are as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Sales of medical products | **620,033** | 576,647 |
| Exclusive rights (note (a)) | **–** | 833 |
| Technology transfer revenue (note (b)) | **600** | 900 |
| Others | **1,237** | 1,083 |
| | **621,870** | 579,463 |

(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 was recognised as revenue in 2015 (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 no amount was received in 2016 and RMB 1,600,000 was received in 2015, and RMB 600,000 and RMB 900,000 was recognised respectively as revenue in 2016 and 2015 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 no amount was received in 2016 and RMB 1,290,000 was received in 2015. 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 2016 (2015: Nil) as the Company did not complete any respective milestone of the transfer as specified in the contract in the year.

## 5 OTHER INCOME

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Cooperation agreement with SPHCL (note (a)) | **17,122** | 19,508 |
| Government grants | **33,020** | 37,915 |
| Gains on investments in financial products (note (b)) | **6,583** | 9,293 |
| Interest income | **3,773** | 2,919 |
| Gains on disposal of property, plant and equipment | **243** | 429 |
| Losses on disposal of a subsidiary | **–** | (15) |
| Others | **1,031** | 2,871 |
| | **61,772** | 72,920 |

(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 and the Agreement was renewed on 19 March 2013. 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 2016 as set out in the Agreement.

In 2016, the Company received total payments of RMB 19,256,000 (2015: RMB 15,612,000) from SPHCL under the Agreement, and RMB 17,122,000 (2015: RMB 19,508,000) was recognised as related service income.

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

## 6 EXPENSES BY NATURE

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Amortisation of leasehold land payments (Note 14) | **792** | 790 |
| Amortisation of intangible assets (Note 17) | **1,186** | 734 |
| Amortisation of deferred costs (included in 'Cost of sales') (Note 18) | **739** | 716 |
| Auditors' remuneration | | |
| – Audit services | **2,222** | 2,118 |
| – Non-audit services | **357** | 16 |
| (Reversal)/Accrual of provision for impairment of trade receivables (Note 24) | **(1,164)** | 442 |
| Provision for impairment of inventories (Note 22) | **23** | 258 |
| Provision for impairment of other receivables, deposits and prepayments | **24** | 59 |
| Changes in inventories of finished goods and work in progress | **(9,054)** | 5,453 |
| Raw materials and consumables used | **32,136** | 30,273 |
| Depreciation of property, plant and equipment (Note 15) | **37,441** | 35,793 |
| Less: Amounts capitalised in deferred costs | **(9,305)** | (9,019) |
| | **28,136** | 26,774 |
| Losses on disposal of property, plant and equipment | **260** | 557 |
| Operating lease rentals in respect of land and buildings | **1,848** | 1,153 |
| Outsourced research and development costs | **15,635** | 19,713 |
| Employee benefit expenses (Note 8) | **98,992** | 83,534 |
| Less: Amounts capitalised in deferred costs | **(4,307)** | (2,883) |
| | **94,685** | 80,651 |
| Marketing and sales promotion expenses | **292,092** | 267,929 |
| Post-marketing study expenses | **24,074** | 35,409 |
| Quality inspection expenses | **8,013** | 7,194 |
| Conference expenses | **2,740** | 188 |
| Others | **33,781** | 18,900 |
| Total cost of sales, research and development costs, distribution and marketing costs, administrative expenses and other operating expenses | **528,525** | 499,327 |

## 7 FINANCE COSTS

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Interest expenses on bank borrowings | **4,062** | 7,129 |
| Net foreign exchange losses/(gains) on financing activities | **217** | (23) |
| | **4,279** | 7,106 |

## 8 EMPLOYEE BENEFIT EXPENSES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Wages and salaries | **75,950** | 62,855 |
| Housing subsidies | **5,447** | 4,713 |
| Social security costs | **6,137** | 5,490 |
| Retirement benefit costs (Note 9) | **11,458** | 10,476 |
| Employee benefit expenses including directors', supervisors' and senior managements' emoluments | **98,992** | 83,534 |

### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2016 include three (2015: three) directors whose emoluments are reflected in the analysis shown in Note 42. The emoluments payable to the remaining two individuals for the year ended 31 December 2016 and 2015 are as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Basic salaries and allowances | **1,498** | 1,488 |
| Bonus | **1,100** | 1,000 |
| Retirement benefit costs | **96** | 94 |
| Social security costs | **86** | 80 |
| | **2,780** | 2,662 |

## 8 EMPLOYEE BENEFIT EXPENSES (continued)

### (a) Five highest paid individuals (continued)

The emoluments fell within the following bands:

| | 2016 | 2015 |
|---|---|---|
| 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 relevant government authorities whereby the Group is required to make monthly contributions to the plan at a rate of 19%-20% of the employees' total wages and salaries for the year, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. 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 11,458,000 and RMB 10,476,000 for the years ended 31 December 2016 and 31 December 2015, respectively.

## 10 INCOME TAX EXPENSE

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Current income tax | **20,577** | 20,362 |
| Deferred income tax (Note 21) | **253** | (1,459) |
| | **20,830** | 18,903 |

Effective from 1 January 2008 and except for Fernovelty Holding, 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 and Tracing were recognised as high-tech enterprises, and the applicable tax rate of the Company and Tracing is 15% in 2016 (2015: 15% and 25% respectively). The applicable tax rates of the other Mainland China subsidiaries are 25% in 2016 (2015: 25%).

## 10 INCOME TAX EXPENSE (continued)

Fernovelty Holding was incorporated in Hong Kong in 2016 as a subsidiary of the Group. Since it did not have estimated assessable profit for 2016, Hong Kong profits tax has not been provided.

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:

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Profit before income tax | **150,838** | 145,950 |
| Tax calculated at the applicable tax rate of 25% | **37,710** | 36,488 |
| Effect of tax rate reduction | **(16,788)** | (15,509) |
| Effect of change in tax rate | **202** | – |
| Tax losses not recognised as deferred tax assets | **4,865** | 2,615 |
| Deductible temporary differences not recognised as deferred tax assets | **405** | – |
| Additional deduction of research and development expenditures | **(5,835)** | (5,596) |
| Expenses not deductible for income tax purposes | **310** | 233 |
| Differences of prior year income tax annual filing | **1,008** | (106) |
| Effect of eliminated unrealised profits on intra-group transactions | **(1,047)** | 2,449 |
| Utilisation of previously unrecognised tax losses | **–** | (1,671) |
| Tax charge | **20,830** | 18,903 |

## 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 145,476,000 (2015: RMB 135,889,000).

## 12 DIVIDEND

No interim dividend was declared by the Company in 2016 (2015: Nil).

On 16 March 2017, the Board of Directors recommends the payment of a final dividend of RMB 0.05 (2015: RMB 0.03) per ordinary share, totalling RMB 46,150,000 (2015: RMB 27,690,000) for the year ended 31 December 2016. The proposed final dividend in respect of the year ended 31 December 2016 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.

## 12 DIVIDEND (continued)

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Proposed final dividend of RMB 0.05 (2015: RMB 0.03) per ordinary share | **46,150** | 27,690 |

## 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.

| | 2016 | 2015 |
|---|---|---|
| Profit attributable to shareholders of the Company (RMB'000) | **138,708** | 127,723 |
| Weighted average number of ordinary shares in issue ('000) | **923,000** | 923,000 |
| Basic earnings per share (RMB) | **0.1503** | 0.1384 |

There is no difference between the basic and diluted earnings per share for the years ended 31 December 2016 and 2015 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.

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Net book value at beginning of the year | **31,760** | 32,550 |
| Amortisation | **(792)** | (790) |
| Net book value at end of the year | **30,968** | 31,760 |

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 35 to 39 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 2015 | 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 |
| Additions | 41,502 | 800 | – | 2,974 | 45,276 |
| Transfer upon completion | 56 | – | – | (56) | – |
| Disposals | (1,303) | (476) | (3) | – | (1,782) |
| At 31 December 2016 | **433,575** | **7,608** | **3,394** | **2,974** | **447,551** |
| **Accumulated depreciation** | | | | | |
| At 1 January 2015 | 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 |
| Charge for the year | 35,912 | 1,322 | 207 | – | 37,441 |
| Disposals | (840) | (336) | (3) | – | (1,179) |
| At 31 December 2016 | **136,680** | **5,043** | **1,595** | **–** | **143,318** |
| **Net book value** | | | | | |
| At 31 December 2016 | **296,895** | **2,565** | **1,799** | **2,974** | **304,233** |
| At 31 December 2015 | 291,712 | 3,227 | 2,006 | 56 | 297,001 |

## 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:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Cost of sales | **10,139** | 10,965 |
| Research and development expenses | **7,772** | 5,888 |
| Distribution and marketing expenses | **6,594** | 6,021 |
| Administrative expenses | **3,631** | 3,900 |
| | **28,136** | 26,774 |
| Deferred costs | **9,305** | 9,019 |
| | **37,441** | 35,793 |

## 16 GOODWILL

| | 2016 RMB'000 |
|---|---|
| **Cost** | |
| At 31 December 2016 and 2015 | **8,937** |
| **Accumulated impairment** | |
| At 31 December 2016 and 2015 | **–** |
| **Net book value** | |
| At 31 December 2016 and 2015 | **8,937** |

## 16 GOODWILL (continued)

The goodwill is monitored by the management at CGUs level as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Food diagnostic reagents (Note 35) | **8,937** | 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 2016 are as follows:

| | Food diagnostic reagents |
|---|---|
| Sales growth rate | 14% |
| Gross profit margin of different reagents | 14%-79% |
| 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 2016.

## 17 INTANGIBLE ASSETS

| | Acquired technical know-how RMB'000 | Acquired licence RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2015 | 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 |
| Additions | 549 | – | 549 |
| At 31 December 2016 | **11,725** | **3,391** | **15,116** |
| **Accumulated amortisation** | | | |
| At 1 January 2015 | 3,460 | – | 3,460 |
| Charge for the year | 734 | – | 734 |
| At 31 December 2015 | 4,194 | – | 4,194 |
| Charge for the year | 1,060 | 126 | 1,186 |
| At 31 December 2016 | **5,254** | **126** | **5,380** |
| **Net book value** | | | |
| At 31 December 2016 | **6,471** | **3,265** | **9,736** |
| At 31 December 2015 | 6,982 | 3,391 | 10,373 |

(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 2016 and 2015, the management did not identify any 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 2015 | 24,072 | 1,315 | 25,387 |
| Capitalisation of costs | 19,978 | – | 19,978 |
| At 31 December 2015 | 44,050 | 1,315 | 45,365 |
| Capitalisation of costs | 16,849 | – | 16,849 |
| At 31 December 2016 | **60,899** | **1,315** | **62,214** |
| **Accumulated amortisation** | | | |
| At 1 January 2015 | 6,984 | 1,272 | 8,256 |
| Charge for the year | 673 | 43 | 716 |
| At 31 December 2015 | 7,657 | 1,315 | 8,972 |
| Charge for the year | 739 | – | 739 |
| At 31 December 2016 | **8,396** | **1,315** | **9,711** |
| **Net book value** | | | |
| At 31 December 2016 | **52,503** | **–** | **52,503** |
| At 31 December 2015 | 36,393 | – | 36,393 |

## 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.

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.

## 19 SUBSIDIARIES (continued)

On 4 October 2016, the Company established Fernovelty (Hong Kong) Holding Co., Limited and holds its 100% equity interest.

In 2016, Derma Clinic established 7 subsidiaries and holds their 100% equity interest.

As at 31 December 2016, the Company held the following investments in principal subsidiaries which are all unlisted and 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 daily necessities 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 |
| Fernovelty (Hong Kong) Holding Co., Ltd. (風屹(香港)控股有限公司) | Hong Kong Limited liability company 4 October 2016 | USD 10,000 | 100.00 | Direct | Cooperation and investment of R&D projects in overseas |

## 19 SUBSIDIARIES (continued)

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

| | 2016 RMB'000 | 2015 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

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **Deferred tax assets:** | | |
| – Deferred tax assets to be recovered after more than one year | **18** | 217 |
| – Deferred tax assets to be recovered within one year | **4,915** | 4,969 |
| | **4,933** | 5,186 |

There is no deferred tax liabilities recognised as at 31 December 2016 (2015: Nil).

The movement in deferred income tax account is as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| At beginning of the year | **5,186** | 3,727 |
| (Charged)/Credited to income tax expense (Note 10) | **(253)** | 1,459 |
| At end of the year | **4,933** | 5,186 |

A potential deferred income tax asset, which represents mainly certain temporary difference arising from unrealised profits on intra-group transactions, deductible temporary differences and tax losses carried forward, has not been recognised in the consolidated financial statements as, in the opinion of the Directors, it is uncertain that such asset will be realised in the foreseeable future. The unrealised profits, deductible temporary differences and tax losses not recognised by the Group amounted to RMB 153,326,000 and RMB 129,807,000 as at 31 December 2016 and 31 December 2015 respectively. The tax losses will expire in 5 years from the respective balance sheet date and are analysed as follows:

## 21 DEFERRED INCOME TAX ASSETS (continued)

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Within 1 year | **7,138** | 2,190 |
| Between 1 and 2 years | **15,262** | 7,138 |
| Between 2 and 3 years | **–** | 15,263 |
| Between 3 and 4 years | **10,158** | – |
| Between 4 and 5 years | **24,021** | 9,729 |
| | **56,579** | 34,320 |

The movement in deferred income tax assets during the year is as follows:

### Deferred income tax assets (on gross basis)

| | Accruals RMB'000 | Provisions RMB'000 | Tax losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2015 | 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 |
| (Charged)/Credited to income tax expense | (77) | (199) | 23 | (253) |
| At 31 December 2016 | **4,669** | **18** | **246** | **4,933** |

## 22 INVENTORIES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Raw materials | **10,330** | 5,692 |
| Production supplies and consumables | **656** | 643 |
| Work in progress | **2,870** | 674 |
| Finished goods | **9,807** | 2,949 |
| | **23,663** | 9,958 |

The cost of inventories recognised as expense and included in "Cost of sales" amounted to RMB 33,560,000 (2015: RMB 40,195,000).

As at 31 December 2016, the impairment provision for inventories was RMB 22,000 (2015: Nil). During the year, a provision of RMB 23,000 was made to inventories (2015: RMB 258,000) and a provision of RMB 1,000 was written off against the related inventory balances (2015: RMB 357,000).

## 23 FINANCIAL INSTRUMENTS BY CATEGORY

| | Loans and receivables | |
|---|---|---|
| | 2016 RMB'000 | 2015 RMB'000 |
| **Assets as per balance sheet** | | |
| Trade receivables, other receivables and deposits | **133,257** | 139,346 |
| Amounts due from related parties | **3,584** | 8,240 |
| Cash and cash equivalents | **511,284** | 445,997 |
| Restricted cash | **3,543** | 3,543 |
| | **651,668** | 597,126 |

## 23 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

| | Financial liabilities at amortised cost | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| **Liabilities as per balance sheet** | | |
| Borrowings | **120,000** | 125,000 |
| Trade payables, other payables and accruals excluding non-financial liabilities | **41,980** | 40,584 |
| Amount due to a related party | **3,690** | 3,690 |
| | **165,670** | 169,274 |

## 24 TRADE RECEIVABLES

| | **2016** | 2015 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Accounts receivable (note (a)) | **77,419** | 93,904 |
| Less: Provision for impairment | **(121)** | (1,382) |
| Accounts receivable – net | **77,298** | 92,522 |
| Notes receivable (note (b)) | **43,314** | 39,948 |
| | **120,612** | 132,470 |

As at 31 December 2016 and 2015, 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 generally between 1 to 4 months. The ageing analysis of accounts receivable based on invoice date, before provision for impairment as at 31 December 2016 and 2015, are as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Accounts receivable-gross | | |
| – Within credit terms | **71,587** | 69,174 |
| – Past due within 30 days | **4,853** | 24,078 |
| – Past due over 30 days and within 60 days | **763** | 336 |
| – Past due over 60 days and within 90 days | **23** | 245 |
| – Past due over 90 days and within one year | **116** | 7 |
| – Past due over one year | **77** | 64 |
| | **77,419** | 93,904 |

As at 31 December 2016, accounts receivable of RMB 5,832,000 (2015: RMB 24,730,000) were impaired and adequately provided for. The amount of provision was RMB 121,000 (2015: RMB 1,382,000). As at 31 December 2016 and 2015, the accounts receivable ageing over one year were fully provided for.

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

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| At beginning of the year | **1,382** | 1,174 |
| Additions arising from acquisition of subsidiaries | **–** | 488 |
| (Reversal)/Accrual of provision for impairment of receivables | **(1,164)** | 442 |
| Receivables written off during the year as uncollectable | **(97)** | (722) |
| At end of the year | **121** | 1,382 |

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. They are all bank acceptance notes with maturities less than six months.

## 25 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Value-added tax recoverable | **9,504** | 8,269 |
| Prepayments | **23,215** | 13,995 |
| Advances to employees | **3,534** | 2,996 |
| Deposits | **1,322** | 391 |
| Others | **7,788** | 3,489 |
| | **45,363** | 29,140 |

## 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

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Cash at bank and on hand | **511,284** | 445,997 |
| Cash and bank balances denominated in | | |
| – RMB ('000) | **493,920** | 445,977 |
| – USD ('000) | **17,343** | – |
| – HKD ('000) | **21** | 20 |
| | **511,284** | 445,997 |

The effective interest rate on cash placed with banks is 0.35%-3.85% per annum as at 31 December 2016 (2015: 0.35%-5.00%).

## 27 CASH AND BANK BALANCES (continued)

### (ii) Restricted cash

In March 2015, Taizhou Pharmaceutical was prosecuted by a third party due to the delayed final payments of a machine. The reason of delayed final payments was due to the quality problems. RMB 3,543,000 of Taizhou Pharmaceutical were held at bank as guarantee for this pending litigation. As at 31 December 2016 and 2015, this litigation is still in progress and the management does not accrue provision due to minimal likelihood of compensation.

## 28 BORROWINGS

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **Current** | | |
| Short-term bank borrowings, unsecured (note (a)) | **90,000** | 95,000 |
| Short-term bank borrowing secured (note (b)) | **30,000** | 30,000 |
| | **120,000** | 125,000 |

(a) As at 31 December 2016, an unsecured short-term bank borrowing of RMB 60,000,000 was taken by the Company, bore a floating interest rate at 3.915% per annum and was due for repayment on 10 August 2017.

As at 31 December 2016, an unsecured short-term bank borrowing of RMB 30,000,000 was taken by the Company, bore a floating interest rate at 3.915% per annum and was due for repayment on 19 December 2017.

As at 31 December 2015, an unsecured short-term bank borrowing of RMB 70,000,000 was taken by the Company, bore a floating interest rate at 4.35% per annum and was repaid on 16 February 2016.

As at 31 December 2015, an unsecured short-term bank borrowing of RMB 25,000,000 was taken by Taizhou Pharmaceutical and bore a fixed interest rate at 6.1525% per annum. The borrowing was guaranteed by the Company and was repaid on 15 March 2016.

## 28 BORROWINGS (continued)

(b) As at 31 December 2016, a secured short-term bank borrowing of RMB 30,000,000 was taken by the Company and bore a fixed interest rate at 4.14% per annum. The borrowing was mortgaged by the Company's 7 intellectual properties and was due for repayment on 24 October 2017. These intellectual properties do not have any carrying value in the Group's financial statements.

As at 31 December 2015, a secured short-term bank borrowing of RMB 30,000,000 was taken by the Company and bore a fixed interest rate at 4.85% per annum. The borrowing was mortgaged by the Company's 7 intellectual properties and was repaid on 18 August 2016. These intellectual properties do not have any carrying value in the Group's financial statements.

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:

| | **2016** | 2015 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Within one year | **120,000** | 125,000 |

As at 31 December 2016 and 2015, the Group's borrowings were repayable as follows:

| | **2016** | 2015 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Within one year | **120,000** | 125,000 |

## 29 DEFERRED REVENUE

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Government grants | **28,316** | 34,277 |
| Exclusive rights | **–** | – |
| Cooperation Agreement with SPHCL (Note 5(a)) | **–** | – |
| Technology transfer (Note 4(b)) | **2,245** | 2,845 |
| | **30,561** | 37,122 |
| Less: Amount to be realised within one year | **(14,464)** | (17,745) |
| | **16,097** | 19,377 |

| | 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 2015 | 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 |
| Additions | 5,431 | – | – | – | 5,431 |
| Transfer to income | (11,392) | – | – | (600) | (11,992) |
| At 31 December 2016 | **28,316** | **–** | **–** | **2,245** | **30,561** |

## 30 TRADE PAYABLES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Accounts payable (note (a)) | **4,398** | 4,275 |

As at 31 December 2016 and 2015, 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 2016 and 2015, the ageing analysis of accounts payable based on invoice date are as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| – Within 30 days | **2,681** | 3,891 |
| – 31 days to 60 days | **839** | 156 |
| – 61 days to 90 days | **304** | – |
| – Over 90 days but less than one year | **225** | – |
| – Over one year | **349** | 228 |
| | **4,398** | 4,275 |

## 31 AMOUNT DUE TO A RELATED PARTY

The balance represents trade balance due to SPHCL, which is 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 2015 and 31 December 2016 | **923,000** | **92,300** |

## 33 RESERVES

| | Capital accumulation reserve (note (a)) | Statutory common reserve fund (note (b)) | Retained earnings (note (c)) | Currency translation reserve | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2015 | 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 |
| Profit for the year 2016 | – | – | 138,708 | – | 138,708 |
| Final dividend for the year 2015 | – | – | (27,690) | – | (27,690) |
| Appropriation to statutory reserve | – | 5,552 | (5,552) | – | – |
| Currency translation differences | – | – | – | (94) | (94) |
| At 31 December 2016 | 412,293 | 46,150 | 292,905 | (94) | 751,254 |

(a) Capital accumulation reserve includes share premium arising from the issue of shares at a price in excess of their par value, the effect for transactions with non-controlling interests on changes in equity attributable to the shareholders of the Company. Costs 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 406,000,000 as at 31 December 2016 (2015: RMB 293,766,000) (Note 41).

## 34 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before income tax to cash generated from operations

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Profit before income tax | **150,838** | 145,950 |
| Adjustments for: | | |
| Amortisation of leasehold land payments (Note 14) | **792** | 790 |
| Amortisation of intangible assets (Note 17) | **1,186** | 734 |
| Amortisation of deferred costs (Note 18) | **739** | 716 |
| Provision for impairment of inventories (Note 22) | **23** | 258 |
| (Reversal)/Accrual of provision for impairment of trade receivables (Note 24) | **(1,164)** | 442 |
| Provision for impairment of other receivables, deposits and prepayments (Note 6) | **24** | 59 |
| Depreciation of property, plant and equipment (Note 6) | **28,136** | 26,774 |
| Gains on investments in financial products (Note 5) | **(6,583)** | (9,293) |
| Losses on disposal of a subsidiary (Note 5) | **–** | 15 |
| Losses on disposal of property, plant and equipment-net (Note 5 and Note 6) | **17** | 128 |
| Interest expenses (Note 7) | **4,062** | 7,129 |
| Interest income (Note 5) | **(3,773)** | (2,919) |
| Changes in working capital: | | |
| – Trade and other receivables and amounts due from related parties | **1,431** | (53,522) |
| – Inventories | **(13,728)** | 5,612 |
| – Trade and other payables and amount due to a related party | **7,727** | (481) |
| – Deferred revenue | **(6,561)** | (6,824) |
| Cash generated from operations | **163,166** | 115,568 |

## 35 BUSINESS COMBINATIONS

No business combination occurred in 2016.

Business combinations occurred in 2015 were as follows:

### (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<br>RMB'000 |
|---|---|
| Purchase consideration | |
| – Cash paid | 22,500 |

## 35 BUSINESS COMBINATIONS (continued)

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

| | 9 January 2015 RMB'000 |
|---|---|
| **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 |
| 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 |

## 35 BUSINESS COMBINATIONS (continued)

### (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 in equity Youhao-Chuangjia, a company which provides general healthcare services, at a consideration of RMB 1,500,000.

No goodwill arose from the business combination.

The following table summarises the consideration paid for Youhao-Chuangjia and the amounts of the assets acquired and liabilities assumed recognised 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 2016 and 2015.

(i) Transactions

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| With SPDCL: | | |
| Sales of medical products | **11,945** | 12,303 |
| With SPHCL: | | |
| Cash received under the Cooperation Agreement (Note 5 (a)) | **21,256** | 15,612 |

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 2016 and 31 December 2015 are disclosed in Note 26 and Note 31.

(iii) Key management compensation:

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

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Basic salaries and allowances | **5,422** | 5,390 |
| Bonus | **3,705** | 3,770 |
| Retirement benefit and social security costs | **585** | 528 |
| | **9,712** | 9,688 |

## 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 recognised RMB 900,000 and RMB 600,000 as the revenue generated from technology transfer in 2015 and 2016 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 except Fernovelty Holding operate in Mainland China and the Group's revenue is principally derived in Mainland China.

Revenues of approximately RMB 284,929,000 (2015: RMB 327,480,000) 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 2016 and 2015, the Group had future aggregate minimum lease payments due under non-cancellable operating leases in respect of properties as follows:

| | **2016** | 2015 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| No later than 1 year | **6,906** | 1,610 |
| Later than 1 year and no later than 5 years | **24,514** | 4,146 |
| Later than 5 years | **18,685** | 2,339 |
| | **50,105** | 8,095 |

## 38 COMMITMENTS (continued)

### (ii) Capital expenditure commitments

Capital expenditure contracted for as at 31 December 2016 and 2015 but not yet incurred by the Group are as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Overseas investment (Note a) | **13,874** | – |
| Property, plant and equipment | **9,757** | 3,709 |
| | **23,631** | 3,709 |

(a) On 23 December 2016, Fernovelty Holding entered into subscription agreement with an overseas biopharmaceutical company to purchase shares and warrants for a total consideration of USD 2,000,000 (RMB 13,874,000), which has been paid on 16 January 2017.

## 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 2016 and 31 December 2015.

## 39 FINANCIAL RISK MANAGEMENT (continued)

### (i) Financial risk factors (continued)

#### (a) Market risk (continued)

*(2) Cash flow and fair value interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets and liabilities, except for cash placed with banks (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. 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 2016, 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 352,000 (2015: 10%, RMB 344,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

#### (b) Credit risk

The carrying amount of cash at bank and on hand, restricted cash, 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.

## 39 FINANCIAL RISK MANAGEMENT (continued)

### (i) Financial risk factors (continued)

#### (c) Liquidity risk

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

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

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

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Group** | | | | | |
| **At 31 December 2016** | | | | | |
| Bank borrowings | **123,698** | **–** | **–** | **–** | **123,698** |
| Trade and other payables | **45,670** | **–** | **–** | **–** | **45,670** |
| **At 31 December 2015** | | | | | |
| Bank borrowings | 126,629 | – | – | – | 126,629 |
| Trade and other payables | 44,274 | – | – | – | 44,274 |

## 39 FINANCIAL RISK MANAGEMENT (continued)

### (ii) Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank borrowings and loans from government authorities) less cash and cash equivalents and restricted cash. Total capital is calculated as "total equity", as shown in the consolidated balance sheet, plus net debt. As at 31 December 2016 and 2015, 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, amount due to a related party 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 16 March 2017.

## 41 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY

### Balance sheet of the Company

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| **Non-current assets** | | |
| Leasehold land payments | **3,650** | 3,755 |
| Property, plant and equipment | **129,316** | 132,865 |
| Intangible assets | **32,361** | 37,525 |
| Deferred costs | **1,852** | – |
| Investments in subsidiaries | **123,368** | 100,920 |
| Deferred income tax assets | **4,636** | 6,275 |
| Other non-current assets | **884** | 772 |
| | **296,067** | 282,112 |
| **Current assets** | | |
| Inventories | **12,911** | 4,202 |
| Trade receivables | **115,802** | 129,008 |
| Other receivables, deposits and prepayments | **28,818** | 16,296 |
| Amounts due from related parties | **3,584** | 8,240 |
| Amounts due from subsidiaries | **149,632** | 105,220 |
| Cash and cash equivalents | **476,367** | 417,489 |
| | **787,114** | 680,455 |
| **Total assets** | **1,083,181** | 962,567 |

## 41 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY (continued)

### Balance sheet of the Company (continued)

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| **Non-current liabilities** | | |
| Deferred revenue | **457** | 3,158 |
| **Current liabilities** | | |
| Trade payables | **2,938** | 2,867 |
| Other payables and accruals | **73,127** | 68,484 |
| Current income tax liabilities | **10,642** | 12,368 |
| Amount due to a related party | **3,690** | 3,690 |
| Amounts due to subsidiaries | **31** | 15,070 |
| Borrowings | **120,000** | 100,000 |
| Deferred revenue | **11,861** | 14,281 |
| | **222,289** | 216,760 |
| **Total liabilities** | **222,746** | 219,918 |
| **Capital and reserves attributable to shareholders of the Company** | | |
| Share capital | **92,300** | 92,300 |
| Reserves (note (a)) | **768,135** | 650,349 |
| **Total equity** | **860,435** | 742,649 |
| **Total equity and liabilities** | **1,083,181** | 962,567 |

The balance sheet of the Company was approved by the Board of Directors on 16 March 2017 and was signed on its behalf by:

**Wang Hai Bo**
*Director*

**Zhao Da Jun**
*Director*

## 41 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY (continued)

### (a) Reserve movements of the Company

| | Capital accumulation reserve RMB'000 | Statutory common reserve fund RMB'000 | Retained earnings RMB'000 |
|---|---|---|---|
| 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 |
| At 1 January 2016 | **315,985** | **40,598** | **293,766** |
| Profit for the year | **–** | **–** | **145,476** |
| Final dividend for the year 2015 | **–** | **–** | **(27,690)** |
| Appropriation to statutory reserve | **–** | **5,552** | **(5,552)** |
| At 31 December 2016 | **315,985** | **46,150** | **406,000** |

## 42 EMOLUMENTS OF DIRECTORS AND SUPERVISORS

(i) Details of emoluments in respect of the directors and supervisors of the Company

Total emoluments to the executive directors and supervisors are as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Basic salaries and allowances | **2,664** | 2,651 |
| Bonus | **1,755** | 1,950 |
| Fees | **167** | 123 |
| Retirement benefit costs | **129** | 126 |
| Social security costs | **120** | 100 |
| | **4,835** | 4,950 |

RMB 450,000 of fees were paid or payable to the independent non-executive directors for the year (2015: RMB 364,000).

## 42 EMOLUMENTS OF DIRECTORS AND SUPERVISORS (continued)

(i) Details of emoluments in respect of the directors and supervisors of the Company (continued):

The emoluments in respect of each of the executive directors, supervisors and independent non-executive directors paid/payable by the Group for the year ended 31 December 2016 are as follows:

| | Fee RMB'000 | Basic salaries and allowances RMB'000 | Bonus RMB'000 | Retirement benefit costs RMB'000 | Social security costs RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| Mr. Wang Hai Bo | – | 1,166 | 765 | 48 | 43 | 2,022 |
| Mr. Su Yong | – | 749 | 495 | 48 | 43 | 1,335 |
| Mr. Zhao Da Jun | – | 749 | 495 | 33 | 34 | 1,311 |
| **Independent non-executive directors** | | | | | | |
| Mr. Zhou Zhong Hui | 150 | – | – | – | – | 150 |
| Mr. Lam Yiu Kin | 150 | – | – | – | – | 150 |
| Mr. Xu Qing | 150 | – | – | – | – | 150 |
| **Independent supervisors** | | | | | | |
| Mr. Guo Yi Cheng | 100 | – | – | – | – | 100 |
| Mr.Liu Xiao Long (appointed on 13 May 2016) | 67 | – | – | – | – | 67 |
| | 617 | 2,664 | 1,755 | 129 | 120 | 5,285 |

## 42 EMOLUMENTS OF DIRECTORS AND SUPERVISORS (continued)

(i) Details of emoluments in respect of the directors and supervisors of the Company (continued):

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

| | Fee RMB'000 | Basic salaries and allowances RMB'000 | Bonus RMB'000 | Retirement benefit costs 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)

(ii) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year (2015: 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 (2015: Nil).

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

No loans, quasi-loans and other dealings were made available in favour of directors, bodies corporate controlled by and entities connected with directors subsisted at the end of the year or at any time during the year (2015: Nil).

(v) Chief executive

The Company does not have a chief executive who is not also a director of the Company (2015: Same)

(vi) Inducement or waiver of emoluments

For the years ended 31 December 2016 and 2015, 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.