上海復旦張江生物醫藥股份有限公司

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

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

(Stock code: 8231)

Annual Results Announcement

For the year ended 31 December 2008

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

The board of directors (the "Board") of the Company announces the audited consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2008 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December 2008	2007
Turnover		31,990	24,927
Cost of sales		(12,209)	(10,880)
Gross profit		19,781	14,047
Other income		9,703	5,637
Research and development costs		(16,004)	(15,863)
Distribution and marketing costs		(21,701)	(18,987)
Administrative expenses		(12,156)	(11,309)
Other operating expenses		(1,270)	(277)
Operating loss		(21,647)	(26,752)
Finance costs		(1,483)	(1,252)
Share of results of and impairment charge on an associate		-	(943)
Loss before income tax		(23,130)	(28,947)
Income tax expense		(1,069)	(1,709)
Loss for the year		(24,199)	(30,656)
Attributable to:			
Shareholders of the Company		(23,402)	(29,550)
Minority interests		(797)	(1,106)
		(24,199)	(30,656)
Basic and diluted loss per share for loss attributable to the shareholders of the Company (RMB)		(0.0330)	(0.0416)

CONSOLIDATED BALANCE SHEET OF THE GROUP
AND BALANCE SHEET OF THE COMPANY
AS OF 31 DECEMBER 200**8**
(All amounts are shown in RMB thousands unless otherwise stated)

		Group		Company	
		As of 31 December		As of 31 December	
	Notes	2008	2007	2008	2007
Non-current assets					
Leasehold land payments		10,932	11,174	10,932	11,174
Property, plant and equipment		60,695	55,879	59,022	54,178
Technical know-how		246	1,011	203	482
Deferred development costs		6,262	4,784	6,262	4,784
Investments in subsidiaries		-	-	72,009	72,009
Investment in an associate		-	-	-	-
Available-for-sale investments		2,442	-	288	-
Deferred income tax assets		4,735	5,804	4,735	5,804
		85,312	78,652	153,451	148,431
Current assets					
Inventories		12,173	8,654	11,608	8,654
Trade receivables		9,880	5,755	9,880	5,755
Other receivables, deposits and prepayments		1,148	674	1,005	483
Amount due from a shareholder		588	362	588	362
Amounts due from subsidiaries		-	-	1,920	6,591
Term deposits in bank with maturities of three to twelve months		-	10,000	-	10,000
Cash and cash equivalents		49,351	26,280	16,222	22,079
		73,140	51,725	41,223	53,924
Total assets		158,452	130,377	194,674	202,355

CONSOLIDATED BALANCE SHEET OF THE GROUP
AND BALANCE SHEET OF THE COMPANY (CONTINUED)
AS OF 31 DECEMBER 2008
(All amounts are shown in RMB thousands unless otherwise stated)

		Group		Company	
		As of 31 December		As of 31 December	
	Notes	2008	2007	2008	2007
Non-current liabilities					
Borrowings		-	20,000	-	20,000
Loans from government authorities		31,000	21,000	21,000	21,000
		31,000	41,000	21,000	41,000
Current liabilities					
Trade payables		1,177	1,117	2,538	917
Other payables and accruals		11,947	10,211	6,193	9,310
Deferred revenue		7,463	3,858	1,989	3,135
Loans from government authorities		1,650	1,650	1,650	1,650
Amount due to a subsidiary		-	-	281	735
Amount due to a shareholder		1,500	1,500	1,500	1,500
Amount due to a related party		7,832	-	7,832	-
Borrowings		20,000	-	20,000	-
		51,569	18,336	41,983	17,247
Total liabilities		82,569	59,336	62,983	58,247
Capital and reserves attributable to shareholders of the Company					
Share capital		71,000	71,000	71,000	71,000
Reserves		2,587	(942)	60,691	73,108
		73,587	70,058	131,691	144,108
Minority interests		2,296	983	-	-
Total equity		75,883	71,041	131,691	144,108
Total equity and liabilities		158,452	130,377	194,674	202,355
Net current assets/(liabilities)		21,571	33,389	(760)	36,677
Total assets less current liabilities		106,883	112,041	152,691	185,108

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
(All amounts are shown in RMB thousands unless otherwise stated)

1 BACKGROUND INFORMATION

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

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

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

On 20 January 2002, all of the shares of the Company, being 53,000,000 ordinary shares with a par value of RMB1.00 each, were subdivided into 530,000,000 ordinary shares with a par value of RMB0.10 each.

On 13 August 2002, the trading of the newly issued 198,000,000 ordinary shares ("H shares") of RMB0.10 each of the Company commenced on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including 18,000,000 H Shares converted from Domestic Shares. Therefore, the registered capital of the Company was increased to RMB71,000,000.

As of 31 December 2008, the Company had direct interests of 68.75%, 65% and 90.9% in three subsidiaries, Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. ("Morgan-Tan"), Shanghai Ba Dian Medicine Co., Ltd. ("Ba Dian") and Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou Pharmaceutical"), respectively.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

The following new standards, amendments to standards and interpretations are mandatory for accounting periods on or after 1 January 2008.

IFRIC-Int 11	IFRS – Group and Treasury Share Transactions
IFRIC-Int 12	Service Concession Arrangements
IFRIC-Int 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

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

IAS 1 (Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Costs
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 32 and IAS 1Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 1 Amendments	First-time adoption of IFRS and IAS 27-Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 Amendment	Share-based Payment Vesting Conditions and Cancellations
IFRS 3 (Revised)	Business Combination
IFRS 7 Amendments	Financial Instruments: Disclosures: Improving disclosures about financial instruments
IFRS 8	Operating Segments
IFRIC-Int 13	Customer Loyalty Programmes
IFRIC-Int 15	Agreements for the Construction of Real Estate
IFRIC-Int 16	Hedges of a Net Investment in a Foreign Operation
IFRIC-Int 17	Distributions of Non- cash Assets to Owners
IFRIC Int 18	Transfers of assets from customers

Improvements to IFRSs – Amendments to:

IAS 1 (Revised)	Presentation of Financial Statement
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 16	Property, Plant and Equipment
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 23 (Revised)	Borrowing Costs
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 31	Interests in Joint Ventures
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IAS 41	Agriculture
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations

Other minor amendments to:

IFRS 7	Financial Instruments: Disclosures
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events After the Balance Sheet Date
IAS 18	Revenue
IAS 34	Interim Financial Reporting

(b) Basis of consolidation

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

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

3 TURNOVER

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

	2008	2007
Technology transfer revenue	88	6,000
Sales of medical products and the provision of related ancillary services	31,902	18,927
	31,990	24,927

On 25 March 2002, the Company entered into a technology transfer contract with a pharmaceutical company in Shandong Province to transfer Recombinant tissue type plasminogen activator (r-tPA) for a total consideration of RMB15,000,000, of which the last portion as of RMB 5,000,000 was received and recognised as revenue in 2007 as the Company completed the respective last two milestones of the transfer as specified in the contract and economic benefits associated with the completion had flowed to the Company. Pursuant to the contract, the Company is entitled to receive royalty payments from the pharmaceutical company equal to 2%-5% of the future gross annual sales over a period of the 5 years. The royalty payment of RMB 88,000 was received and recognised as revenue in 2008 (2007: nil).

On 30 September 2005, the Company entered into a technology transfer contract with a Taiwanese pharmaceutical company to transfer Filgrastim Technology for a total consideration of RMB1,800,000, of which an amount of RMB 1,000,000 was received and recognised as revenue in 2007 as the Company completed the respective milestones of the transfer as specified in the contract and economic benefits associated with the completion had flowed to the Company. No further revenue of this technology transfer was recognised in 2008. Pursuant to the contract, the Company is entitled to receive royalty payments equal to 8% of the future gross annual sales from the technology transferred. However it is estimated that the Company will not receive any significant royalty payments in near future as the related production has not commenced.

4 OPERATING LOSS

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

	2008	2007
Amortisation of leasehold land payments (Note15)	242	242
Amortisation of deferred development costs (included in 'Cost of sales') (Note18)	2,316	2,110
Amortisation of technical know-how (included in 'Research and development costs')	685	1,274
Amortisation of technical know-how (included in 'Administrative expenses')	80	114
	765	1,388
Auditors' remuneration	1,024	1,010
Provision for impairment of receivables	439	83
Write-down of inventories	842	157
Cost of inventories sold	11,537	7,549
Depreciation of property, plant and equipment (Note16)	5,406	5,477

Less: amount capitalised in deferred development costs	764	-
	4,642	5,477
Loss/(gain) on disposal of property, plant and equipment	141	(20)
Exchange losses on cash and cash equivalents (included in 'Other operating expenses')	57	122
Operating lease rentals in respect of land and buildings	396	281
Research and development costs, excluding employee benefit expenses	10,562	10,757
Employee benefit expenses (Note 8)	24,758	19,962
Loss on disposal of available-for-sale investments	1,027	-

5 INCOME TAX EXPENSE

	2008	2007
Current income tax	-	-
Deferred tax charge (Note 22)	1,069	1,709
	1,069	1,709

As the Company was recognised as a New and High Technology Enterprise and operating and registered in the State Level New and High Technology Development Zone, it was entitled to a reduced income tax at a rate of 15% in 2007. Morgan-Tan and Ba Dian were recognised as domestic companies registered in Shanghai Pudong New Area, they were also entitled to the reduced income tax rate of 15% in 2007. Taizhou Pharmaceutical was subject to income tax at a standard rate of 33% in 2007.

Effective from 1 January 2008, the Company and the subsidiaries shall determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law") as approved by the National People's Congress on 16 March 2007.

Under the new CIT Law, as the Company was re-certified as a New and High Technology Enterprise, it is entitled to a reduced income tax rate of 15%. Accordingly, the Company is subject to income tax at a rate of 15% in 2008. However, the corporate income tax rate applicable to the subsidiaries has been changed to 25% with effect from 1 January 2008.

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

	2008	2007
Loss before income tax	23,130	28,947
Tax calculated at a tax rate of 15%	(3,470)	(4,342)
Effect of unrecognised tax losses of the Group	2,100	7,265
Effect of tax rate change	2,153	(2,049)
Expenses not deductible for tax purpose	286	835
Tax charge	1,069	1,709

6 DIVIDENDS

At the meeting on 25 March 2009, the Board of Directors recommended not to distribute any dividends in respect of the year ended 31 December 2008.

At the shareholders' Annual General Meeting on 23 May 2008, it was resolved not to distribute any dividends in respect of the year ended 31 December 2007.

7 LOSS PER SHARE

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

	2008	**2007**
Loss attributable to shareholders of the Company	(23,402)	(29,550)
Weighted average number of ordinary shares in issue (thousands)	710,000	710,000
Basic loss per share (RMB)	(0.0330)	(0.0416)

There is no difference between the basic and diluted loss per share for the years ended 31 December 2008 and 2007 as there were no dilutive potential ordinary shares during the years then ended.

8 TRADE RECEIVABLES – GROUP AND COMPANY

	2008	**2007**
Accounts receivables (Note(a))	9,104	5,732
Notes receivable (Note(b))	776	23
	9,880	5,755

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

	2008	**2007**
Current to 30 days	4,073	3,417
31 days to 60 days	1,372	1,052
61 days to 90 days	1,204	349
Over 90 days but less than one year	2,552	975
Over one year	2,095	1,692
	11,296	7,485
Less: provision for impairment	(2,192)	(1,753)
	9,104	5,732

Customers are generally granted credit term of 90 days.

As of 31 December 2008 and as of 31 December 2007, the accounts receivables aging over one year were fully impaired.

As of 31 December 2008, accounts receivable of RMB2,095,000 (2007: RMB1,692,000) were individually impaired. The individually impaired receivables mainly relate to customers, which are in unexpected difficult economic situations. The other overdue receivables were assessed that a portion of these receivables is expected to be recovered. The ageing of these receivables is as follows:

	2008	2007
Over 90 days but less than one year	2,552	975
Over one year	2,095	1,692
	4,647	2,667

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

	2008	2007
At beginning of the year	1,753	1,670
Provision for impairment of receivables	439	83
At end of the year	2,192	1,753

The creation and release of provision for impaired receivables have been included in 'Administrative expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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

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

9 TRADE PAYABLES

Details of the aging analysis are as follows:

	Group		Company	
	2008	2007	2008	2007
Current to 30 days	437	440	217	440
31 days to 60 days	112	95	112	95
61 days to 90 days	55	-	55	-
Over 90 days but less than one year	25	78	307	79
Over one year	548	504	1,847	303
	1,177	1,117	2,538	917

Trade payables are unsecured and interest-free.

10 RESERVES

(i) The reserves of the Group attributable to shareholders of the Company for the years ended 31 December 2008 and 31 December 2007 are as follows:

	Capital accumulation reserve (Note a)	**Statutory common reserve fund** (Note b)	**Accumulated losses** (Note c)	**Total**
At 1 January 2007	115,014	2,829	(89,235)	28,608
Loss for the year 2007	-	-	(29,550)	(29,550)
At 31 December 2007	115,014	2,829	(118,785)	(942)
Capital contribution to a subsidiary by minority interests (Note d)	27,813	-	-	27,813
Unrealised loss on available-for-sales investments	(882)	-	-	(882)
Loss for the year 2008	-	-	(23,402)	(23,402)
At 31 December 2008	141,945	2,829	(142,187)	2,587

(ii) The reserves of the Company for the years ended 31 December 2008 and 31 December 2007 are as follows:

	Capital accumulation reserve (Note a)	**Statutory common reserve fund** (Note b)	**Accumulated losses** (Note c)	**Total**
At 1 January 2007	115,014	2,829	(74,579)	43,264
Profit for the year 2007	-	-	29,844	29,844
	¾ ¾ ¾ ¾	¾ ¾ ¾ ¾	¾ ¾ ¾ ¾	¾ ¾ ¾ ¾
At 31 December 2007	115,014	2,829	(44,735)	73,108
Unrealised loss on available-for-sales investments	(113)	-	-	(113)
Loss for the year 2008	-	-	(12,304)	(12,304)
At 31 December 2008	114,901	2,829	(57,039)	60,691

(a) Capital accumulation reserve includes share premium arising from the issue of shares at a price in excess of their par value and changes in the fair value of available-for-sale investment. Expenses related to the issue of shares are accounted for as a deduction of the capital accumulation reserve.

(b) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders. The statutory common reserve fund shall only be used to make good previous years' losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution of shareholders' general meeting, the Company may transform its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital.

(c) In accordance with the Company's Articles of Association, the Company declares dividends based on the lower of retained earnings as reported in accordance with the PRC accounting regulations and that reported in accordance with IFRS. According to the statutory financial statements prepared in accordance with the PRC accounting regulations and the financial statements prepared in accordance with IFRS, there was no distributable reserve as of 31 December 2008 (2007: nil).

(d) Pursuant to a capital increase agreement, Taizhou Pharmaceutical, a 100% subsidiary of the Company as of 31 December 2007, received RMB25,000,000 and RMB5,000,000 from two third party companies,Taizhou Huasheng Investment Development Company Limited and Taizhou Pharmaceutical Science Park Huayuan Investment Development Company Limited respectively as capital injection. Following these capital injections, the registered capital of Taizhou Pharmaceutical was increased from RMB60,000,000 to RMB66,000,000, and the Company's interest in Taizhou Pharmaceutical was reduced from 100% to 90.9%. After the completion of the registered capital increase, the Group recognized RMB 27,813,000 in the capital accumulation reserve.

11 SEGMENTAL INFORMATION

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

	Year ended 31 December 2008			Year ended 31 December 2007		
	Research and development activities	Sales of medical products and the provision of related ancillary services	Total	Research and development activities	Sales of medical products and the provision of related ancillary services	Total
Turnover	88	31,902	31,990	6,000	18,927	24,927
Segment loss	(8,329)	(3,288)	(11,617)	(8,317)	(9,286)	(17,603)
Unallocated income			634			1,340
Unallocated costs			(12,147)			(12,684)
Loss before income tax			(23,130)			(28,947)
Income tax expense			(1,069)			(1,709)

Loss for the year	(24,199)	(30,656)

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

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

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

	Research and development activities	Sales of medical products and the provision of related ancillary services	Unallocated activities	Total
31 December 2008				
Segment assets	26,282	52,079	80,091	158,452
Segment liabilities	(59,863)	(4,440)	(18,266)	(82,569)
Net	(33,581)	47,639	61,825	75,883
Other segment items				
Capital expenditure	5,626	191	8,369	14,186
Depreciation	3,318	1,147	941	5,406
Amortisation	685	2,379	259	3,323
Provision for impairment charge	-	439	-	439
Write-down of inventories	-	842	-	842
Other non-cash expenses	2	66	9	77
31 December 2007				
Segment assets	29,249	45,068	56,060	130,377
Segment liabilities	(46,258)	(2,302)	(10,776)	(59,336)
Net	(17,009)	42,766	45,284	71,041
Other segment items				
Capital expenditure	3,463	1,280	751	5,494
Depreciation	2,954	1,470	1,053	5,477
Amortisation	1,274	2,208	258	3,740
Provision for impairment charge	-	83	333	416
Write-down of inventories	-	157	-	157
Other non-cash expenses/(income)	51	3	(74)	(20)

Note: Unallocated activities mainly represent the holding of cash and bank deposits and available-for-sale investments and the development of a construction project by the Group during the years that cannot be allocated to the principal activities specifically.

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

TURNOVER

The Group's consolidated turnover for the year 2008 amounted to approximately RMB31,990,000, comparing to RMB24,927,000 for the year 2007, representing an increase of 28%.

During the year 2008, approximately RMB88,000 (or 0.3% of the total turnover) was derived from the income of technology transfer, and the rest of approximately RMB31,902,000 (or 99.7% of the total turnover) came from the sale of medical products. In contrast, approximately RMB6,000,000 (or 24% of the total turnover) was derived from the income of technology transfer, and the rest of approximately RMB18,927,000 (or 76% of the total turnover) came from the sale of medical products for the year 2007.

REVENUE FROM TECHNOLOGY TRANSFER

Income recognized from technology transfer for the year 2008 was approximately RMB 88,000. This is a sales commission on a certain percentage that came from a technology which was transferred to a pharmaceutical company in Shandong Province in 2002, as stipulated by the contract.

REVENUE FROM SALE OF MEDICAL PRODUCTS

Revenue of the Group from the sale of medical products for the year 2008 was RMB31,902,000, increased by 69% from that of last year which was RMB18,927,000.

Sales of the new product , Aminolevulinic Acid (ALA,鹽酸氨酮戊酸), which the Group had launched to the market, has contributed significant revenue to the Group.

COST OF SALES

For the year 2008, cost of sales of the Group was RMB12,209,000, while the corresponding figure for last year was RMB10,880,000. Cost of sales increased by 12% from that of last year, while the ratio of cost of sales to sales dropped to 38% from the level of 44% for last year.

OPERATING LOSS

For the year 2008, operating loss of the Group was RMB21,647,000, comparing to RMB26,752,000 for the year 2007, representing a decrease of 19%.

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

- R&D costs for the year 2008 was RMB16,004,000, roughly remained the same level for the year 2007 with RMB15,863,000.

- Distribution and marketing costs for the year 2008 was RMB21,701,000, compared with RMB18,987,000 for the year 2007, representing an increase of 14%.

- Administration expenses for the year 2008 was RMB12,156,000, compared with RMB11,309,000 for the year 2007, representing an increase of 7%.

- Other operating expenses for the year 2008 was RMB1,270,000, compared with RMB277,000 for year 2007, representing a significant increase, mainly because the Group has disposed some available-for-sale investments, which has little effect on the Group due to its minimal amount.

- Other income for the year 2008 was RMB9,703,000, compared with RMB5,637,000 for the year 2007, representing a significant increase of 72%, mainly because the Group has recognized more income from government grants on R&D projects during the year.

LOSS / (PROFIT) ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

A loss attributable to shareholders of the Company of RMB23,402,000 was recorded in the consolidated financial statements for the year 2008, compared with RMB29,550,000 for the year 2007.

For the year 2008, the loss attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB12,304,000 (2007: profit of

RMB29,844,000).

SIGNIFICANT INVESTMENTS

For the year 2008, the Group did not have any significant investment.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the year 2008, the Group did not have any material acquisitions or disposals of subsidiaries and associated companies.

CONTINGENT LIABILITIES

As at 31 December 2008, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

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

BANKING FACILITIES

Aided by the "Technology and Education Promoting Shanghai" project, the Group took a loan of RMB11,000,000 and a loan of RMB10,000,000 on 12 April 2006 and 6 July 2007, respectively. Both of the two loans are due for repayment on 31 December 2011. They are interest-free if fully repaid before 31 December 2009. Interest has to be paid if the loans are repaid between 1 January 2010 and 31 December 2011.

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

Aided by "Jiangsu Technology Results Transfer Project", a subsidiary of the Group, Taizhou Pharmaceutical, took a loan of RMB10,000,000 from government authority on 28 February 2008 which is due for repayment on 27 May 2011. The loan is unsecured and interest-free.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Company made an announcement on 7 March 2008 that it would cooperate with a wholly owned subsidiary of Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. to construct the industrial space next to the Company's existing site. This is a connected and discloseable transaction, which has been approved on the EGM held on 23 May 2008 and is in progress now.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations and investing activities with internally generated financial resources, proceeds from the listing of the Company's shares on the Hong Kong GEM Board in August 2002, and interest-free and interest-subsidized commercial loans supported by the municipal government authorities. As at 31 December 2008, the Group had outstanding interest-free loans of RMB 32,650,000, of which RMB11,650,000 are unsecured, and an outstanding secured bank loan of RMB 20,000,000 with interest fully subsidized.

As at 31 December 2008, the Group had cash and cash equivalents of approximately RMB49,351,000.

The Group's gearing ratio as at 31 December 2008 was 1.12 (31 December 2007: 0.85) which is calculated based on the Group's total liabilities of RMB82,569,000 (31 December 2007: RMB59,336,000) and capital and reserves attributable to shareholders of the Company of RMB73,587,000 (31 December 2007: RMB70,058,000).

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

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND SALARIES

As at 31 December 2008, the Group had a total of 216 employees, as compared to 206 employees as at 31 December 2007. Staff costs including directors' remuneration for the year 2008 were RMB25,360,000, compared with RMB19,962,000 for the year 2007. The salaries and benefits of employees of the Group are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory social welfare plans, are also provided to employees.

BUSINESS REVIEW

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

Research and Development

During the period under review, the Group made an ideal progress in R&D of dugs.

During the period under review, the Group’s Nifeviroc (尼非韋羅) for the treatment of AIDS has entered into phase II clinical study. The Company made an announcement on 16 April, 2007 regarding a collaboration and license agreement with an Australian company on the overseas patent right of the project and the related technology, so as to enable an internationalized R&D on the project and its related technology. Ever since year 2008, the collaboration has been enlarged and has stepped to the stage of practical execution.

Phase II clinical study of the drug for the treatment of Port Wine Stain (nevus flammeus) by means of photodynamic therapy has been completed and Phase III clinical study has started.

Duteroporphyrin (多替泊芬), a photodynamic new drug, and Vincristine Liposome Injection (長春新鹼脂質體注射剂), both for the treatment of tumors, were approved to enter into clinical study in February, 2009.

The Group has been taking the R&D of innovative drugs as its fundamental. As at the end of year 2008, the progress of R&D on the major drugs is summarised as follows:

Technical platform	**Project name**	**Indications**	**Progress**
Genetic Engineering Drugs	Recombinant tissue type plasminogen activator (r-tPA)	Heart infarction	Technique transferred, drug registration issued, technical commission received
	Recombinant human parathyroid hormone derivatives (rhPTH)	Osteoporosis	Phase I clinical study, cooperated with other company
	Recombinant human lymphotoxin α-derivatives （rhLT）	Tumor	Phase II clinical study
	Recombinant human interleukin-1 receptor antagonist (rhIL-1Ra)	Arthritis	Phase I clinical study, cooperated with other company

	Recombinant human tumor necrosis recipient Fc fusion protein (Etanercept)	Arthritis	Clinical study completed, domestic and overseas rights transferred respectively, and technical commission retained
Photodynamic therapy drugs	ALA (鹽酸氨酮戊酸)	Condyloma acuminata	Launched for sale, accredited as Shanghai Hi-Tech Result Transfer Project, also accredited as“State Hi-tech Development Project” by NDRC
	ALA (鹽酸氨酮戊酸)	New Indication	Clinical study cooperated with hospitals
	Hemoporfin （海姆泊芬）	Port wine stain	Phase III clinical study
	Duteroporphyrin（多替泊芬）	Tumors	Approved to enter into clinical study
Liposome drugs	Doxorubicin liposome Injection (鹽酸多柔比星脂質體注射剂)	Tumors	Drug registration issued, GMP recognition in progress
	Vincristine Liposome Injection (長春新鹼脂質體注射剂)	Tumors	Approved to enter into clinical study
Others	Down’s Syndrome Antenatal Screening System （唐氏綜合征產前篩查系統）	Down’s Syndrome	Launched for sale, accredited as Shanghai Hi-Tech Transfer Project and National Torch Plan Project
	HLA Genotyping Chips （HLA 基因芯片）	Genotyping	Launched for sale
	Mulberry Root Alkaloid Tablets (桑根鹼片)	Diabetes	Transferred, Phase I clinical study carried out, Technical commission retained
	Unsweet sugar Tablets (淡糖片)	Diabetes	Phase I clinical study, cooperated with other company
	Nifeviroc (尼非韋羅)	AIDS	Phase II, clinical study

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

Intellectual Property Rights

The Group has been actively protecting its intellectual property rights on its innovative medicines and research results. During the period under review, the Group has applied for

5 invention patents, and has been granted 1 invention patent. As at the end of year 2008, the Group has applied for 50 invention patents in aggregate, and has obtained 17 invention patents. During the period under review, the title of Shanghai Experimental Enterprise of Patent Affairs was awarded to the Company.

Commercialization

ALA used for the treatment of dermal HPV infectious disease and proliferative disease as represented by Condyloma acuminata has attracted high level of attention from dermatologists all over China. The amount of sales increased steadily.

Drug Registration of Doxorubicin Liposome Injection(鹽酸多柔比星脂質體注射剂) has been issued by SFDA. GMP recognition was in progress. The drug is planned to be launched in the second half of year 2009.

Recombinant tissue type plasminogen activator (r-tPA), which had been transferred to an enterprise in Shandong in year 2002, was launched in year 2008. The Group has received a certain percentage of the revenue from sales according to the contract.

Grants and Awards

The Group has always been complying with the industrial policies of the State and improving its capacity of developing new drugs. During the period under review, the Group has obtained the following grants and awards for a number of research and commercialization projects:

Recognized by NDRC, ALA, new photodynamic drug, was granted as “Hi-tech Commercialization Project” by “Hi-tech Commercialization Project Assessment” of NDRC and received the grant in aid of RMB 3 million.

Recognized by the government of Jiangsu Province, Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou Pharmaceutical") has obtained a financial aid of RMB 20 million from “Jiangsu Province Special Aid for the Transfer of R&D Results of Science and Technology”, of which, RMB10 million is a non-repayable grant, and the other RMB10 million is an interest-free loan, for a term of 3 years.

Recognized by the government of Jiangsu Province, Taizhou Pharmaceutical obtained a grant of RMB1 million from the “Financial Aid for the Indrawal of High Level Personnel of Innovative Companies”.

A grant of RMB1 million from the “Foundation of Innovation” of National Science and Technology Department has been given to the project Nifeviroc (尼非韋羅), which has also been enlisted under the Key Innovative supporting Projects of National 11th “Five-year Plan” and would receive an aid of RMB3 million. Neither of the two grants has arrived yet.

The Company was recognised as a New and High Technology Enterprise in November 2008.

FUTURE PROSPECTS

The Group has been taking the innovative R&D of new drugs as its core positioning since its establishment, and has attained certain achievements. The "Summary of the State medium-long-term scientific and technology development plan (year 2006 - 2020)" which has been published has confirmed the direction of China's special way of self innovation, and has also affirmed supports to those encouraged enterprises to become technologically innovative bodies. It calls for creating further conditions, optimizing environment, deepening reforms, and truly strengthening the dynamics and motives of enterprise technological innovation. Under this broad environment, the Group will certainly obtain more and better development opportunities.

After the R&D for more than a decade, the Group has a large number of drugs which are at the crucial time of being commercialized. Therefore, the Group is now undergoing the process of conversion from pure R&D to a combination of R&D and commercialization. In the future, the Group will focus its resources in both aspects of R&D and commercialization.

R&D

Over the past years, the Group has accumulated extensive experience in R&D, and has taken a leading position in the pharmaceutical industry in the PRC. The Group has established very close cooperative relationships with Life Science Research Institute of the Chinese Academy of Sciences, Shanghai Organic Chemistry Research Institute of the Chinese Academy of Sciences and Shanghai Institute of Medical Research of the Chinese Academy of Sciences, all being reputable domestic institutions. At the same time, the Group has also made further cooperation with other international and domestic R&D institutes. In the future, the Group will continue devoting efforts to the R&D of projects with proprietary intellectual property rights.

R&D of the Group will still be focused on genetic engineering drugs, photodynamic drugs, liposome drugs, and small molecule chemical drugs. In particular, among these sectors, drugs for the treatment of dermal diseases and tumors will be of the most importance.

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

Commercialization

To keep in line with the key direction of R&D, the Group has gradually enhanced commercialization of the drugs for the treatment of dermal diseases and tumors from year 2007. The Group has arranged relevant drug product lines on both directions, and will steadily launch the products to the market by stages in the next few years, so as to form a product series package on the following two directions:

Dermal disease drugs

In respect of the commercialization of dermal disease drugs, the photodynamic new drug ALA (鹽酸氨酮戊酸) for the treatment of Condyloma acuminata (尖銳濕疣) have been granted for market launch. This is the first drug commercialized in this direction. Condyloma acuminata is one of the most common sexual contagious diseases in the modern society, with morbidity representing 20%-30% of all the venereal disease patients, ranking No. 2 or 3. According to the estimations of WHO in 2005, there were actually 16 million to 20 million new venereal disease cases in China every year, while the number of new patients suffering condyloma acuminata was expected to be 3 million to 6 million every year. It can be seen that this drug has a tremendous market capacity.

New indications will be developed for ALA, such as HPV induced CIN (cervical intraepithelial neoplasia) and acne, to enhance the sales size. Hemoporfin will be commercialized continuously to treat Port Wine Stain and the Phase III study has already started.

Tumor treatment drugs

In respect of commercialization of drugs for the treatment of tumors, Doxorubicin Liposome Injection (鹽酸多柔比星脂質體注射剂) is anticipated to be launched in the latter half of year 2009. This will be the first drug being commercialized in the same group of the drugs of the Company. The drug is used for the treatment of tumors such as AIDS-relating Kaposi's sarcoma, breast cancer and overian cancer, which has become No. 1 disease in female tumor morbidity. According to the estimations of WHO, in year 2005, there were approximately 7.6 million people died of various cancers in the world, of which, 500,000 died of breast cancer. According to the estimations, there are approximately 200,000 new discoveries of breast cancer in the PRC every year. The market capacity of the drug is tremendous.

Subsequent drugs include Vincristine Liposome Injection (長春新鹼脂質體注射剂) and lymphotoxin α-derivatives (淋巴毒素 α-衍生物). Approval of clinical study has been issued for Vincristine Liposome Injection for the treatment of malignant tumors, while lymphotoxin α-derivatives for the treatment of tumors has entered into the phase II of the clinical study.

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

Name of drugs	Indications	Estimated launching time*
ALA (鹽酸氨酮戊酸)	Condyloma acuminata	Launched
Doxorubicin Liposome Injection (鹽酸多柔比星脂質體注射剂)	Tumors	2009
Hemoporfin （海姆泊芬）	Port wine stain	2010
Vincristine Liposome Injection (長春新鹼脂質體注射剂)	Tumors	2012
lymphotoxin α-derivatives (淋巴毒素 α-衍生物)	Tumors	2014

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

In respect of commercialization, in addition to diagnostic reagents, HLA Genetic Chips, Down's Syndrome Antenatal Screening System and the photodynamic new drug ALA (鹽酸氨酮戊酸) for the treatment of Condyloma acuminata (尖銳濕疣), Doxorubicin Lipsome Injection (鹽酸多柔比星脂質體注射剂) has also been registrated as a new drug and will be launched in the latter half of year 2009. The Group has completed the conversion from a pure R&D to a combination of R&D and commercialization where the two are regarded equally important, and has formed an upgraded system which includes various functions through organic combination of the R&D, product manufacture and marketing functions, enabling the Group to progress to a better development stage.

CORPORATE GOVERNANCE PRACTICE

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

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

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

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

The chairman and the general manager is the same person. Although the Articles of

Association has specific requirements on the duties of the chairman and the general manager (chief executive), which are to be responsible for the operating management of the Board and the daily management of the Company's business respectively, the two positions are still taken by one person. Considering that the scope of the Company is relatively small, with its business mainly in the research, production and sales of innovative drugs, and that it has not completely stepped out of the venture period for the time being, also for the sake of management efficiency, the Board holds the point that the chairman and the chief executive taken by one person is beneficial for the Company's development at the present stage. Along with the development of the Company, the Board will consider the segregation of chairman and chief executive duties.

RIGHTS OF DIRECTORS CHIEF EXECUTIVE AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors, chief executive or Supervisors or their spouse or children of age under 18 has been authorized by the Company or any subsidiary any right to purchase shares or debentures in the Company or any other body corporate, or have exercised such rights within 2008.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

The Group has not entered into any material contracts in which the Group's Directors, Supervisors have direct or indirect interests during any time in 2008.

DETAILS OF OPTIONS GRANTED BY THE COMPANY

On 23 June 2002, the Company adopted a share option scheme under which the executive Directors or full-time employees of the Company or its subsidiaries or any of their respective associates may be granted options to subscribe for shares of the Company subject to the terms and conditions stipulated in the Share Option Scheme.

As at the date of this report, no option has been granted or agreed to be granted to any executive director or full-time employee of the Company or its subsidiaries or any of their respective associates under the Share Option Scheme.

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

As at 31 December 2008, the interests (including interests in shares and / or short positions) of the Directors, Chief Executive and Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, (a) as notified to the Company and the Stock Exchange pursuant to: Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO"); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Name of Directors	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in Domestic shares	Percentage in total share capital
Wang Hai Bo	Domestic Shares	51,886,430 (L)	Beneficial owner	Personal	10.13%	7.31%
Su Yong	Domestic Shares	18,312,860 (L)	Beneficial owner	Personal	3.58%	2.58%
Zhao Da Jun	Domestic Shares	15,260,710 (L)	Beneficial owner	Personal	2.98%	2.15%
Fang Jing	Domestic Shares	5,654,600 (L)	Beneficial owner	Personal	1.10%	0.80%

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

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2008, the persons other than a director, chief executive or supervisor of the Company who have interests and / or short positions in the shares or underlying shares of the Company subject to disclosure under Divisions 2 and 3 of Part XV of the SFO are listed as follows (the interests in shares and / or short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, Chief Executive and Supervisors):

Name of substantial shareholders	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the respective class of share capital	Percentage in total share capital
Shanghai Pharmaceutical (Group) Corporation	Domestic Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	27.26%	19.66%

Shanghai Pharmaceutical Co., Ltd.	Domestic Shares	139,578,560 (L)	Beneficial Owner	Corporate	27.26%	19.66%
China General Technology (Group) Holding, Limited	Domestic Shares	130,977,816 (L)	Beneficial Owner	Corporate	25.58%	18.45%
Shanghai Zhangjiang (Group) Co. Ltd.	Domestic Shares	105,915,096 (L)	Interest of controlled corporation	Corporate	20.69%	14.92%
Shanghai Zhangjiang Hi-Tech Park Development Co Ltd.	Domestic Shares	105,915,096 (L)	Beneficial Owner	Corporate	20.69%	14.92%
Fudan University	Domestic Shares	30,636,286 (L)	Beneficial Owner	Corporate	5.98%	4.31%
Shanghai Industrial Investment (Holdings) Co. Ltd.	H Shares	70,564,000 (L)	Interest of controlled corporation	Corporate	35.64%	9.94%
S.I. Pharmaceutical Holdings Ltd.	H Shares	65,856,000 (L)	Beneficial Owner	Corporate	33.26%	9.28%
SIIC Medical Science and Technology (Group) Limited	H Shares	4,708,000 (L)	Beneficial Owner	Corporate	2.38%	0.66%

COMPETING INTERESTS

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

Shanghai Pharmaceutical Co., Ltd.

Investee company	Nature of business	Shareholding interests
Shanghai Huashi Pharmaceutical Hi-Tech Industrial Development Co., Ltd.	Drug introduction and R&D of chemical and	100%

(上海華氏醫藥高科技實業發展有限公司)	initiative drugs	

China General Technology (Group) Holding, Ltd.

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

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

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

CONNECTED TRANSACTIONS

For the year ended 31 December 2008, the connected transactions were either exempted from disclosures or have been approved by the General Meeting.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has re-formulated the Code for Securities Transactions by Directors of Listed Issuers, and passed it on 10 August 2005, with the terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Directors and relevant employees shall be bound under this Code. A copy of the code is sent to each Director upon his appointment and thereafter, one month before the date of every Board meeting to approve the Company's half yearly and annual results, with a reminder that the Director cannot deal in the securities of the Company until after such results have been published.

Under the Securities Code, Directors are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the Chairman of the Audit Committee and receive a dated written acknowledgement before any dealing.

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

Having made enquiries, all Directors, Supervisors and relevant employees have complied with the relevant requirements in 2008.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2008.

PRE-EMPTIVE RIGHTS

There is no regulation for the purchase of the pre-emptive rights as set out in the articles of association of the Company or by the laws of the People's Republic of China ("PRC" , being the jurisdiction in which the Company was established), which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial reporting, internal controls and corporate governance issues and making relevant recommendations to the Board. All the members are Independent Non-executive Directors: Mr. Pan Fei, Mr. Weng De Zhang and Mr. Cheng Lin. Mr. Pan Fei was appointed as the chairman of the Committee.

The Audit Committee reviews the accounting principles and practices adopted by the Group, as well as the listing rules and statutory compliance, and reviews issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee reviewed the Group's annual results for 2008 before proposing to the Board for approval.

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 regulations prescribed by the GEM Listing Rules, each of the independent non-executive Directors of the Company has confirmed with the Company their independence. The Company has received such confirmation from the independent non-executive Directors and considers the independent non-executive Directors as independent.

By Order of the Board
Wang Hai Bo
Chairman

As at the date thereof, the Board comprises:

Mr. Wang Hai Bo (Executive Director)
Mr. Su Yong (Executive Director)
Mr. Zhao Da Jun (Executive Director)
Ms. Fang Jing (Non-executive Director)
Mr. Zhou Jie (Non-executive Director)
Mr. Guo Jun Yu (Non-executive Director)
Mr. Hao Hong Quan (Non-executive Director)
Mr. Zhu Ke Qin (Non-executive Director)
Mr. Pan Fei (Independent Non-executive Director)
Mr. Cheng Lin (Independent Non-executive Director)
Mr. Weng De Zhang (Independent Non-executive Director)

Shanghai, the PRC

25 March 2009