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 2009

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.

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

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 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

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

	Year ended 31 December	
	2009	**2008**
Turnover	61,905	31,990
Cost of sales	(16,185)	(12,209)
Gross profit	45,720	19,781
Other income	13,937	9,703
Research and development costs	(22,108)	(16,004)
Distribution and marketing costs	(30,483)	(21,701)
Administrative expenses	(11,848)	(12,156)
Other operating expenses	(268)	(1,270)
Operating loss	(5,050)	(21,647)
Finance costs	(2,545)	(1,483)
Loss before income tax	(7,595)	(23,130)
Income tax expense	(879)	(1,069)
Loss for the year	(8,474)	(24,199)
Other comprehensive income / (loss)		
Available-for-sale investments	959	(959)
Total comprehensive loss for the year	(7,515)	(25,158)
Loss attributable to:		
Shareholders of the Company	(7,320)	(23,402)
Minority interests	(1,154)	(797)
	(8,474)	(24,199)
Total comprehensive loss attributable to:		
Shareholders of the Company	(6,438)	(24,284)
Minority interests	(1,077)	(874)
	(7,515)	(25,158)
Basic and diluted loss per share for loss attributable to the shareholders of the Company (RMB)	(0.0103)	(0.0330)

CONSOLIDATED BALANCE SHEET OF THE GROUP

AND BALANCE SHEET OF THE COMPANY

AS OF 31 DECEMBER 2009

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

	Group		Company	
	As of 31 December		As of 31 December	
	2009	2008	2009	2008
Non-current assets				
Leasehold land payments	42,799	10,932	10,690	10,932
Property, plant and equipment	74,334	60,695	46,957	59,022
Prepayment for construction	27,652	-	-	-
Technical know-how	110	246	74	203
Deferred costs	5,565	6,262	5,565	6,262
Investments in subsidiaries	-	-	71,365	72,009
Investment in an associate	-	-	-	-
Available-for-sale investments	129	2,442	42	288
Deferred income tax assets	3,856	4,735	3,856	4,735
	154,445	85,312	138,549	153,451
Current assets				
Inventories	14,625	12,173	14,625	11,608
Trade receivables	26,929	9,880	26,929	9,880
Other receivables, deposits and prepayments	1,028	1,148	806	1,005
Assets held-for-sale	14,906	-	14,906	-
Amount due from a shareholder	-	588	-	588
Amounts due from subsidiaries	-	-	6,802	1,920
Cash and cash equivalents	86,898	49,351	44,544	16,222
	144,386	73,140	108,612	41,223
Total assets	298,831	158,452	247,161	194,674

CONSOLIDATED BALANCE SHEET OF THE GROUP

AND BALANCE SHEET OF THE COMPANY (CONTINUED)

AS OF 31 DECEMBER 2009

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

	Group		Company	
	As of 31 December		As of 31 December	
	2009	2008	2009	2008
Non-current liabilities				
Borrowings	13,330	-	13,330	-
Loans from government authorities	31,000	31,000	21,000	21,000
Deferred revenue	14,118	-	14,118	-
	58,448	31,000	48,448	21,000
Current liabilities				
Trade payables	1,342	1,177	1,141	2,538
Other payables and accruals	22,576	11,947	22,152	6,193
Deferred revenue	11,703	7,463	7,129	1,989
Loans from government authorities	1,650	1,650	1,650	1,650
Amount due to a subsidiary	-	-	-	281
Amount due to a shareholder	1,500	1,500	1,500	1,500
Amount due to a related party	14,574	7,832	14,574	7,832
Borrowings	18,670	20,000	18,670	20,000
	72,015	51,569	66,816	41,983
Total liabilities	130,463	82,569	115,264	62,983
Capital and reserves attributable to shareholders of the Company				
Share capital	71,000	71,000	71,000	71,000
Reserves	64,689	2,587	60,897	60,691
	135,689	73,587	131,897	131,691
Minority interests	32,679	2,296	-	-
Total equity	168,368	75,883	131,897	131,691
Total equity and liabilities	298,831	158,452	247,161	194,674
Net current assets/(liabilities)	72,371	21,571	41,796	(760)
Total assets less current liabilities	226,816	106,883	180,345	152,691

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009
(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 ("Domestic 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 2009, the Company had direct interests of 68.75%, 65% and 69.77% 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 following new standards, amendments to standards and interpretations are mandatory for accounting periods on or after 1 January 2009.

IAS 1 (Revised)	Presentation of financial statements
IAS 23 (Revised)	Borrowing costs
IAS 32 and IAS 1 (Amendment)	Puttable financial instruments and obligations arising on liquidation
IFRS 2 (Amendment)	Share-based payment
IFRS 7 (Amendment)	Financial Instruments – Disclosures (amendment)
IFRS 8	Operating segments
IFRS 1 and IAS 27 (Amendment)	Cost of an investment in a subsidiary, jointly controlled entity or associate
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 9 and IAS 39 (Amendment)	Reassessment of embedded derivatives

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 24 (Revised)	Related party disclosures
IAS 27 (Revised)	Consolidated and separate financial statements

IAS 32 (Amendment)	Classification of rights issue
IAS 39 (Amendment)	Eligible hedge items
IFRS 1 (Revised)	First-time adoption of IFRSs
IFRS 1 (Amendment)	Additional exemptions for first-time adopters
IFRS 2 (Amendments)	Group cash-settled share-based payment transactions
IFRS 3 (Revised)	Business combinations
IFRS 9	Financial Instruments
Amendment to IFRIC 14	Prepayments of a minimum funding requirement
IFRIC 17	Distribution of non-cash assets to owners
IFRIC 19	Extinguishing financial liabilities with equity instruments

(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:

	2009	2008
Sales of medical products and the provision of related ancillary services	57,455	31,902
Exclusive rights	2,352	-
Technology transfer revenue	2,098	88
	61,905	31,990

On 18 April 2009, the Company signed a contract with a pharmaceutical company to offer the exclusive distribution rights of Doxorubicin Liposome Injection products from the contract effective day to 31 December 2014, for a total consideration of RMB20,000,000, of which an amount of RMB2,352,000 is recognised as revenue in 2009.

On 20 March 2004, the Company signed a technology transfer contract with a Taiwanese pharmaceutical company to transfer Recombinant Human Soluble TNFR 75 Fusion Protein for a total consideration of RMB7,500,000, of which an amount of RMB2,000,000 is received and recognised as revenue in 2009 (2008: nil) as the Company completed the respective milestones of the transfer as specified in the contract and economic benefits associated with the completion had flowed to the Company. Pursuant to the contract, the Company is entitled to receive royalty payments from the Taiwanese pharmaceutical company equal to 6% of the future gross annual sales from the technology transferred. However, it is estimated that the Company will not receive any significant royalty payments in the near future as the related production has not commenced.

On 25 March 2002, the Company signed 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. 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 RMB98,000 was received and recognised as revenue in 2009 (2008: RMB88,000).

4 OPERATING LOSS

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

	2009	2008
Amortisation of leasehold land payments	299	242
Less: amount capitalised in construction in progress	(57)	-
	242	242
Amortisation of deferred costs (included in 'Cost of sales')	1,697	2,316
Amortisation of technical know-how (included in 'Research and development costs')	143	685
Amortisation of technical know-how (included in 'Administrative expenses')	18	80
	161	765
Auditors' remuneration	1,021	1,024
(Reversal of)/provision for impairment of receivables	(109)	439
Write-down of inventories	886	842
Cost of inventories sold	15,324	11,537
Depreciation of property, plant and equipment	5,142	5,406
Less: amount capitalised in deferred development costs	-	(764)
	5,142	4,642
(Gains)/losses on disposal of property, plant and equipment	(3)	141
Exchange (gains)/losses on cash and cash equivalents (included in 'Other operating expenses')	-	57
Operating lease rentals in respect of land and buildings	396	396
Research and development costs, excluding employee benefit expenses	14,353	10,562
Employee benefit expenses	25,146	24,758
(Gains)/losses on disposal of available-for-sale investments	(1,524)	1,027
Marketing and sales promotion	16,431	5,381

5 INCOME TAX EXPENSE

	2009	2008

Current income tax	-	-
Deferred tax charge	879	1,069
	879	1,069

Effective from 1 January 2008, the Company and its 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 certified as a New and High Technology Enterprise, it is entitled to a reduced income tax rate of 15%. In 2009, the Company obtained an approval for a two-year full exemption of income tax from 2008 followed by a three-year 50% reduction.

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:

	2009	**2008**
Loss before income tax	7,595	23,130
Tax calculated at a tax rate of 15%	(1,139)	(3,470)
Effect of unrecognised tax losses of the Group	1,596	2,100
Effect of tax rate change	-	2,153
Effect of tax exemption	1,070	-
Utilisation of previously unrecognised tax losses	(2,820)	-
Expenses not deductible for tax purpose	2,172	286
Tax charge	879	1,069

The tax (charge)/credit relating to components of other comprehensive income/(loss) is as follows:

	2009			**2008**		
	Before tax	**Tax charge**	**After tax**	**Before tax**	**Tax charge**	**After tax**
Fair value losses transfer from/(to) equity:						
− Available-for-sale investment	959	-	959	(959)	-	(959)
Other comprehensive income/(loss)	959	-	959	(959)	-	(959)

6 DIVIDENDS

At the meeting on 23 March 2010, the Board of Directors recommended not to distribute any dividends in respect of the year ended 31 December 2009.

At the shareholders' Annual General Meeting on 12 June 2009, it was resolved not to distribute any dividends in respect of the year ended 31 December 2008.

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.

	2009	2008
Loss attributable to shareholders of the Company	(7,320)	(23,402)
Weighted average number of ordinary shares in issue (thousands)	710,000	710,000
Basic loss per share (RMB)	(0.0103)	(0.0330)

There is no difference between the basic and diluted loss per share for the years ended 31 December 2009 and 2008 as there were no dilutive potential ordinary shares during the years then ended.

8 TRADE RECEIVABLES – GROUP AND COMPANY

	2009	2008
Accounts receivables (Note(a))	26,904	9,104
Notes receivable (Note(b))	25	776
	26,929	9,880

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

	2009	2008
Current to 30 days	10,059	4,073
31 days to 60 days	7,176	1,372
61 days to 90 days	3,518	1,204
Over 90 days but less than one year	6,424	2,552
Over one year	547	2,095
	27,724	11,296
Less: provision for impairment	(820)	(2,192)
	26,904	9,104

Customers are generally granted credit term of 90 days.

As of 31 December 2009 and as of 31 December 2008, the accounts receivables aging over one year were fully impaired.

As of 31 December 2009, accounts receivable of RMB547,000 (2008: RMB2,095,000) 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:

	2009	2008
Over 90 days but less than one year	6,424	2,552
Over one year	547	2,095
	6,971	4,647

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

	2009	2008
At beginning of the year	2,192	1,753
(Reversal of)/provision for impairment of receivables	(109)	439
Receivables written off during the year as uncollectible	(1,263)	-
At end of the year	820	2,192

The creation and release of provision for impaired receivables have been included in 'Administrative expenses' in the statement of comprehensive income (Note 6). 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	
	2009	**2008**	**2009**	**2008**
Current to 30 days	636	437	636	217
31 days to 60 days	146	112	146	112
61 days to 90 days	62	55	62	55
Over 90 days but less than one year	165	25	166	307
Over one year	333	548	131	1,847
	1,342	1,177	1,141	2,538

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 2009 and 31 December 2008 are as follows:

	Capital accumulation reserve (Note a)	**Statutory common reserve fund** (Note b)	**Accumulated losses** (Note c)	**Total**
At 1 January 2008	115,014	2,829	(118,785)	(942)
Capital contribution to a subsidiary by minority interests	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
Capital contribution to a subsidiary by minority interests (Note d)	68,540	-	-	68,540
Transfer on disposal of available-for-sales investments	882	-	-	882
Loss for the year 2009	-	-	(7,320)	(7,320)
At 31 December 2009	211,367	2,829	(149,507)	64,689

(ii) The reserves of the Company for the years ended 31 December 2009 and 31 December 2008 are as follows:

	Capital accumulation reserve (Note a)	Statutory common reserve fund (Note b)	Accumulated losses (Note c)	Total
At 1 January 2008	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
Transfer on disposal of available-for-sales investments	113	-	-	113
Profit for the year 2009	-	-	93	93
At 31 December 2009	115,014	2,829	(56,946)	60,897

(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 2009 (2008: nil).

(d) Pursuant to a capital increase agreement, a third party company Taizhou Huaxin Pharmaceutical Investment Co., Ltd. invested RMB100,000,000 to subscribe for RMB20,000,000 registered capital of Taizhou Pharmaceutical, representing 23.26% of the equity interest of Taizhou Pharmaceutical as enlarged by the capital increase as of 24 December 2009. The total consideration was paid by the appraised land use rights of RMB31,184,000 and remaining amount of cash RMB68,816,000. Following this capital injection, the registered capital of Taizhou Pharmaceutical was increased from RMB66,000,000 to RMB86,000,000, and the Company's interest in Taizhou Pharmaceutical was reduced from 90.9% to 69.77%. After the completion of the registered capital increase, the Group recognised RMB68,540,000 in the capital accumulation reserve.

11 SEGMENTAL INFORMATION

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The directors consider the business from principal activities perspective.

	Year ended 31 December 2009			Year ended 31 December 2008		
	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	2,098	59,807	61,905	88	31,902	31,990
Segment (loss)/profit	(10,836)	12,174	1,338	(8,329)	(3,288)	(11,617)
Unallocated income			2,218			634
Unallocated costs			(11,151)			(12,147)
Loss before income tax			(7,595)			(23,130)
Income tax expense			(879)			(1,069)
Loss for the year			(8,474)			(24,199)

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 operating segments.

	Research and development activities	Sales of medical products and the provision of related ancillary services	Unallocated activities	Total
31 December 2009				
Segment assets	21,326	158,640	118,865	298,831
Segment liabilities	(73,709)	(35,875)	(20,879)	(130,463)
Net	(52,383)	122,765	97,986	168,368
Other segment items				
Capital expenditure	131	53,789	7,688	61,608
Depreciation	3,086	1,091	965	5,142
Amortisation	143	1,756	258	2,157
Reversal of impairment of receivables	-	(109)	-	(109)
Write-down of inventories	-	886	-	886
Other non-cash incomes	-	-	(3)	(3)
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 of receivables	-	439	-	439
Write-down of inventories	-	842	-	842
Other non-cash expenses	5	120	16	141

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.

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 2009 amounted to approximately RMB61,905,000, comparing to RMB31,990,000 for the year 2008, representing an increase of 94%.

During the year 2009, approximately RMB2,098,000 (or 3% of the total turnover) was derived from the income of technology transfer, and the rest of approximately RMB59,807,000 (or 97% of the total turnover) came from the sale of medical products. In contrast, 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 for the year 2008.

REVENUE FROM TECHNOLOGY TRANSFER

Income recognized from technology transfer for the year 2009 was approximately RMB 2,098,000. Of which, RMB2,000,000 is a milestone income for a technology which was transferred to a pharmaceutical company in Taiwan in 2004. The remaining balance is a royalty payment received at a certain percentage of revenue that came from a technology which was transferred to a pharmaceutical company in Shandong Province in 2002, as stipulated by the relevant technology transfer contract.

REVENUE FROM SALE OF MEDICAL PRODUCTS

Revenue of the Group from the sale of medical products for the year 2009 was RMB57,455,000, increased by 80% from that of last year which was RMB31,902,000. Sales of the new products, ALA and Libod, which the Group had launched to the market, have contributed significant revenue to the Group. On 18 April 2009, the Company entered into a contract with Nanjing Medical to offer the exclusive distribution rights of Libod from the contract effective day to 31 December 2014, for a total consideration of RMB20,000,000, of which, amount of RMB2,352,000 is recognized as revenue in 2009.

COST OF SALES

For the year 2009, cost of sales of the Group was RMB16,185,000, while the corresponding figure for 2008 was RMB12,209,000. The ratio of cost of sales to sales dropped to 26% from the level of 38% for last year. The deduction of costs benefits first of all from the strict cost control that the Group executed, and secondly from the higher profit margin of the two new products that have been launched lately.

OPERATING LOSS

For the year 2009, operating loss of the Group was RMB5,050,000, comparing to RMB21,647,000 for the year 2008, representing a decrease of 77%.

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

- R&D costs for the year 2009 was RMB22,108,000, compared with RMB16,004,000 for the year 2008, representing an increase of 38%.

- Distribution and marketing costs for the year 2009 was RMB30,483,000, compared with RMB21,701,000 for the year 2008, representing an increase of 40%.

- Administration expenses for the year 2009 was RMB11,848,000, compared with RMB12,156,000 for the year 2008, representing a decrease of 3%.

- Other operating expenses for the year 2009 was RMB268,000, compared with RMB1,270,000 for year 2008, representing a decrease of 79%.

- Other income for the year 2009 was RMB13,937,000, compared with RMB9,703,000 for the year 2008, representing an increase of 44%, partly because the Group has recognized more income from government grants on R&D projects and a non-refundable grant due to the termination of the collaboration with a third party company during the year.

LOSS / PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

A loss attributable to shareholders of the Company of RMB7,320,000 was recorded in the consolidated financial statements for the year 2009, compared with RMB23,402,000 for the year 2008.

For the year 2009, the profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB93,000 (2008: loss of RMB12,304,000).

SIGNIFICANT INVESTMENTS

For the year 2009, the Group did not have any significant investment.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The capital increase in Taizhou Pharmaceutical has been completed in December 2009, pursuant to the announcement dated on 12 August 2009. Taizhou Huaxin invested RMB100,000,000 to subscribe for RMB20,000,000 in the registered capital of Taizhou Pharmaceutical, representing 23.26% of the total equity interest as enlarged by the capital increase. The Company's holding of the registered capital of Taizhou Pharmaceutical has dropped from 90.91% to 69.77%.

CONTINGENT LIABILITIES

As at 31 December 2009, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

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

On 23 June 2006, the Group put its real estate property in pledge to obtain an interest-free loan granted by "Technology and Education Promoting Shanghai" project. The Group has repaid full amount of the loan at the due date, and the corresponding pledge has been rescinded.

On 23 October 2009, the Group put its real estate property in pledge to obtain a bank loan. 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. The Group

has repaid full amount of the loan at the due date, and the corresponding pledge has been rescinded.

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.

On 17 September and 23 October 2009, the Group took two bank loans of RMB12,000,000 and RMB20,000,000, respectively. Redemption date for the first loan is 2 September 2010. The second loan is to be repaid within three years on an equal amount basis, with the due dates being 22 October 2010, 2011 and 2012, respectively. Full amount of the loan interest is subsidized by the Pudong New Area government.

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. The first transfer as stipulated by the contract has been completed. The transaction has entered into phase II, and the second transfer will be made when appropriate.

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 2009, the Group had outstanding loans which are supported by the government of RMB 64,650,000, of which RMB11,650,000 is unsecured and interest-free, and RMB 53,000,000 is secured bank loans with interest fully subsidized.

As at 31 December 2009, the Group had cash and cash equivalents of approximately RMB86,898,000.

The Group's gearing ratio as at 31 December 2009 was 0.96 (31 December 2008: 1.12) which is calculated based on the Group's total liabilities of RMB130,463,000 (31 December 2008: RMB82,569,000) and capital and reserves attributable to shareholders of the Company of RMB135,689,000 (31 December 2008: RMB73,587,000).

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 2009, the Group had a total of 212 employees, as compared to 216 employees as at 31 December 2008. Staff costs including directors' remuneration for the year 2009 were RMB25,146,000, compared with RMB25,360,000 for the year 2008. 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

Aiming to become a pioneer in the bio-pharmaceutical industry, the Group commits to its mission "the more we explore, the healthier human beings will be". Our foundation is the technology of genetic engineering, drug delivery and photodynamic drug development. Our core position would be R&D of drugs with patents and commercialization of drugs specific for the Chinese market as.

Research and Development

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

Clinical trial phase III for Hemoporfin (海姆泊芬), a photodynamic new drug for the treatment of Port Wine Stain has been completed, and application for the New Drug Certificate will be made soon.

Duteroporphyrin (多替泊芬), a photodynamic 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.

Pre-clinical study for rhTNFR***(m)***:Fc（High bio-activity recombinant human TNF receptor 2-Fc fusion protein mutant 高活性重組人腫瘤壞死因子受體突變體-Fc融合蛋白）for the treatment of arthritis has been completed, and application for clinical study is about to be submitted. Application for a PCT patent for the project has been made.

The Group's Nifeviroc (尼非韋羅) for the treatment of AIDS is in the process of clinical trial phase II. The Group 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. In 2008, the scale of the collaboration was changed and enlarged. The Australian company proposed termination of the agreement recently, according to which, the contingent milestone payments as stipulated by the original agreement might or might not be realized, depending on the progress and success of the development of the compounds which were initially selected for collaboration. However, this would not have any impact on the clinical study of the project that is carried out by the Group in mainland China. Meanwhile, the Group will continue looking for other opportunities of international collaboration on this project.

The Group has been taking the R&D of innovative drugs as its fundamental. By the end of year 2009, the progress of R&D on the major drugs is summarized as following:

Technical platform	Project name	Indications	Progress
Genetic Engineering Drugs	Recombinant tissue type plasminogen activator (r-tPA)	Heart infarction	Technique transferred, drug registration issued, royalty payment received
	Recombinant human parathyroid hormone derivatives (rhPTH)	Osteoporosis	Clinical study terminated
	Recombinant human lymphotoxin α-derivatives （rhLT）	Tumor	Clinical trial phase II
	Recombinant human interleukin-1 receptor antagonist (rhIL-1Ra)	Arthritis	Clinical study terminated
	Recombinant human tumor necrosis recipient Fc fusion protein (Etanercept)	Arthritis	Domestic and overseas rights transferred respectively, Clinical study completed, and rights of royalty retained
	rhTNFR***(m)***:Fc (High bio-activity recombinant human TNF receptor 2-Fc	Arthritis	Pre-Clinical study completed

	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）		
Photodynamic therapy drugs	ALA® (艾拉®，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® (艾拉®, 鹽酸氨酮戊酸)	New Indication	Clinical study cooperated with hospitals
	Hemoporfin （海姆泊芬）	Port wine stain	Clinical trial phase III completed
	Duteroporphyrin （多替泊芬）	Tumors	Approved to enter into clinical study
Liposome drugs	Libod® (里葆多® Doxorubicin liposome Injection, 鹽酸多柔比星脂質體注射剂)	Tumors	Launched for sale
	Vincristine Liposome Injection (長春新鹼脂質體注射剂)	Tumors	Approved to enter into clinical study
Others	Beixi®（Down’s Syndrome Antenatal Screening Diagnostic Reagent，唐氏綜合征產前篩查試劑）	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, rights of royalty retained
	Tasteless sugar Tablets (淡糖片)	Diabetes	Clinical trial phase I , cooperated with other company

	Nifeviroc (尼非韋羅)	AIDS	Clinical trial phase II

Note: Projects which have been transferred with no subsequent interests retained by the Group are not included in the above

Intellectual Property Rights

The Group has been actively protecting its intellectual property rights (IPR) on its innovative medicines and research results. During the period under review, the Group applied for 6 invention patents, and granted 4 invention patents. By the end of year 2009, the Group applied for 56 invention patents in aggregate, and obtained 21 invention patents.

Commercialization

During the period under review, the Group made satisfactory results on commercialization. Revenue from product sales increased by 87% than that of last year.

ALA® (艾拉®) which is used for the treatment of dermal HPV infectious disease and proliferative disease as represented by condyloma acuminate, has attracted high level of attention from dermatologists all over the country since the launch for sale. Sales revenue of the product has been increasingly steadily. The product has become one of the largest consumed skin-cure drugs. Sales revenue of the product in 2009 more than doubled over last year. It's expected that there will be more significant increase in the future.

Libod® (里葆多®) for the treatment of tumors, launched for sale in August 2009. The Group signed an exclusive distribution agreement with Nanjing Medical Co., Ltd. ("Nanjing Medical") in April 2009, to offer the exclusive distribution rights of the product to Nanjing Medical for the coming five years. Nanjing Medical made a payment of RMB 20,000,000 to the Group in July 2009 as the consideration of the distribution rights. Though the product was listed in market for a short time, the favorable market response was obvious. The bigger contribution to the sales revenue for the Group is expected in future.

Recombinant tissue type plasminogen activator (r-tPA), which was transferred to an enterprise in Shandong in year 2002, was launched in year 2008. The Group received a royalty payment which is at 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 obtained the following grants and awards for a number of R&D and commercialization

projects:

The Group obtained a grant of RMB 8,200,000 from the Key National S&T Program, "Major New Drug Development", for its project "Development of the Incubator for the Targeting Anti-tumor Innovative Drugs".

The Group obtained a grant of RMB 7,500,000 from the Key National S&T Program, "Major New Drug Development", for its project "Key Technique of the Big Scale Culture of Mammal Cells and Medical Product Preparation".

A grant of RMB 8,200,000 has been offered to the new drug Nifeviroc (尼非韋羅) for the treatment of AIDS for its clinical study by The Ministry of Science and Technology of the PRC.

ALA® (艾拉®) received "Shanghai Innovation Product Certificate" from the municipal government.

A grant of RMB 2,000,000 for commercialization has been given to Libod® (里葆多®), by the Science and Technology Committee of Shanghai Municipality.

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 published"Summary of the State Medium-long-term Scientific and Technology Development Plan (year 2006 - 2020)" has confirmed the direction of China's special way of self innovation, and has also affirmed to support those enterprises encouraged 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. Within this broad environment, the Group will certainly obtain more and better development opportunities.

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

R&D

Over the past years, the Group accumulated extensive experience in R&D, and took a leading position in the pharmaceutical industry in the PRC. The Group has established very close cooperative relationships with Shanghai Institute of Life Science of the Chinese

Academy of Sciences, Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences and Shanghai Institute of Medical Materials of the Chinese Academy of Sciences. All are regarded as the reputable domestic institutions. At the same time, the Group also made further collaboration with other international and domestic R&D institutes. In the future, the Group will continue to devote efforts to the R&D of projects with proprietary intellectual property rights.

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

Genetic Engineering Drugs

The pre-clinical study of 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）has been completed and the application for the clinical trial will be submitted soon. The drug is used to treat self-immunological diseases, such as arthritis. The market size is enormous. The product holds an IPR and its PCT has been applied. It is one of the key R&D projects of the Group

Recombinant human lymphotoxin α-derivatives （rhLT）has entered the clinical trial phase II. The product has an IPR and its PCT has been applied. It is one of the key R&D projects of the Group.

Photodynamic Drugs

New photodynamic drug for the treatment of condyloma acuminate, ALA® (艾拉®) has been launched to the market. New indications, such as cervical diseases infected by HPV and acne, are under development. It is one of the key R&D projects of the Group.

The clinical trial phase III of the photodynamic drug for the treatment of port wine stain, hemoporfin (海姆泊芬), has been completed. The clinical trial permission for the anti-tumor drug, duteroporphyrin （多替泊芬）was issued. Together with ALA, the Group has set up a unique bunch of photodynamic drugs with IPRs.

Liposome Drugs

Vincristine Liposome Injection (長春新鹼脂質體注射剂) to for the treatment of cancer has been permitted for clinical trial. Further clinical study will be carried out. A large market share of the drug is expected. It is one of the key R&D projects of the Group.

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® (艾拉®) for the treatment of condyloma acuminata has been been granted for launch for sales. This is the first drug commercialized in this aspect. Condyloma acuminata is one of the most common sexual contagious diseases in the modern society, with morbidity of 20%-31%, ranking No. 2 or 3, of all the venereal disease patients. 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® (艾拉®), such as HPV induced CIN (cervical intraepithelial neoplasia) and acne, to enhance the sales size. It is expected that the revenue of the sales of the drug will still increased extensively and continuously. The following hemoporfin will be commercialized to treat port wine stain and the clinical trial phase III has been completed.

Tumor treatment drugs

In respect of commercialization of drugs for the treatment of tumors, Libod®,(里葆多®)，was launched to market in August 2009. It is the first drug commercialized in the same cluster of the drugs of the Group. The drug is used for the treatment of tumors such as AIDS-relating Kaposi's sarcoma, breast cancer and ovarian 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 due to various cancers in the world. 500,000 people died due to breast cancer. According to the estimations, there are approximately 200,000 new cases of breast cancer in the PRC every year. The market capacity of the drug is tremendous. It is estimated that more revenue will be gained since year 2010.

The feasibility study for the registration of Libod® (里葆多®)in the US and the EU market is carried out. The plan to launch the product in overseas market is also made. If the plan is successfully proceeded, even bigger revenue of the sale of the drug is expected.

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 (淋巴毒素 α-衍生物) for the treatment of tumors have entered into the phase II of the clinical study.

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

Name of drugs	Indications	Estimated launching time*
ALA® (,艾拉®，鹽酸氨酮戊酸)	Condyloma acuminata	Launched
Libod® (Doxorubicin Liposome Injection, 里葆多®，鹽酸多柔比星脂質體注射剂)	Tumors	Launched
Hemoporfin （海姆泊芬）	Port wine stain	2011
Vincristine Liposome Injection (長春新鹼脂質體注射剂)	Tumors	2013
lymphotoxin α-derivatives (淋巴毒素 α-衍生物)	Tumors	2015

* *The estimated launch time is based on the progress, 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.*

Considering that more drugs are going to be registered, the subsidiary of the Group Taizhou Pharmaceutical has invested to construct the production lines. More production lines will be invested and constructed in Taizhou Pharmaceutical in the next several years so as to turn it into the main production base of the Group.

In the area of commercialization, the Group has realized production and sales on diagnostic reagents, ALA, and anti-tumor drug, Libod. The sales revenue for the year 2009has made significant increase over last year. As more products are launched to the market, it is expected that the future sales revenue will be increasing extensively. The Group has successfully accomplished the transformation from a pure R&D body to a combination of R&D and commercialization. An intact system of R&D, production, sales and marketing combined orderly has been formed. The Group will be able 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 2009.

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 2009.

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 2009, 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 2009, 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 Industrial Investment (Holdings) Co. Ltd.	Domestic Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	27.26%	29.60%
	H Shares	70,564,000 (L)			35.64%	
Shanghai Pharmaceutical Co., Ltd.	Domestic Shares	139,578,560 (L)	Beneficial Owner	Corporate	27.26%	19.66%
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%
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%

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. (上海華氏醫藥高科技實業發展有限公司)	Drug introduction and R&D of chemical and initiative drugs	100%

China General Technology (Group) Holding, Ltd.

Investee company	Nature of business	Shareholding interests
Hainan 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 2009, the connected transactions, including the product sales revenue of RMB386,000 to a major shareholder, Shanghai Pharmaceutical Co., Ltd, were either exempted from disclosures or have been approved by the General Meeting.

31.25% of the shares of Morgon Tan International Center for Life Science (Morgan Tan), which were originally held by Zhangjiang Group, a connected party of the Group, were transferred to the Group during January 2010, for a consideration of RMB848,000. Morgan Tan has become a wholly-owned subsidiary of the Group. The transaction is exempted from disclosure.

During March 2010, the Company transferred the construction-in-progress project to a wholly-owned subsidiary of Shanghai Zhangjiang Hi-Tech Par Co. (first transfer), according to the Cooperation Framework Agreement. This is a connected and discloseable transaction. The Company made an announcement on 7 March 2008. The transaction was approved on the extraordinary general meeting (EGM) held on 23 May 2008. The second transfer is in the process as per Agreement, and would be completed

when appropriate.

SECURITIES TRANSACTIONS BY DIRECTORS

The amended "Code of transactions in the Company's securities", which was passed through on 11August 2009 by the Board meeting of the Company, has 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, a reminder not to deal in the securities of the Company until after the periodic results have been published would be sent to the Directors 30 days before the date of every Board meeting on which the quarterly and half-yearly results are supposed to be approved, and 60 days before the annual board meeting.

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 2009.

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 2009.

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 2009 before proposing to the Board for approval.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers. The Company has not changed the auditors 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 of this report, 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

23 March 2010

* *For identification purpose only*

This announcement will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting.