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

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

(Stock Code: 8231)

2012
Annual Report

* *For identification purpose only*

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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.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Fang Jing
Hao Hong Quan
Zhu Ke Qin
Ke Ying
Shen Bo

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pan Fei
Cheng Lin
Weng De Zhang

SUPERVISORS

Zhu Zu Shun
Chen Meng Zhao
Zhang Man Juan
Guo Yi Cheng
Xu Qing

LEGAL REPRESENTATIVE

Wang Hai Bo

COMPANY SECRETARY

Xue Yan, HKICPA/FCCA/CICPA/CIA

COMPLIANCE OFFICER

Zhao Da Jun

AUTHORISED REPRESENTATIVES

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

AUDIT COMMITTEE

Pan Fei *(Chairman)*
Weng De Zhang *(Vice Chairman)*
Cheng Lin

REMUNERATION COMMITTEE

Cheng Lin *(Chairman)*
Pan Fei
Weng De Zhang
Fang Jing

NOMINATION COMMITTEE

Wang Hai Bo *(Chairman)*
Pan Fei
Cheng Lin
Weng De Zhang

INTERNATIONAL AND STATUTORY AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Zhong Tian CPAs LLP

LEGAL ADVISERS TO THE COMPANY

Baker & Mckenzie (As to Hong Kong Law)
Fangda Partners (As to PRC Law)

PRINCIPAL BANKERS

Industrial and Commercial Bank of China,
Zhangjiang Sub-branch
Bank of China, Zhangjiang Sub-branch
Bank of Nanjing, Shanghai Sub-branch
Bank of Nanjing, Taizhou Sub-branch

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46/F Hopewell Centre
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CORPORATE INFORMATION

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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LISTING INFORMATION

H Share
The Growth Enterprise Market of
The Stock Exchange of Hong Kong Limited
Stock Code: 8231

WEBSITE

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FINANCIAL DATA HIGHLIGHT

RESULTS

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Turnover	**232,527**	133,890
Operating profit	**63,866**	42,489
Finance costs	**(6,166)**	(4,862)
Profit before income tax	**57,700**	37,627
Profit tax expense	**(5,264)**	(5,255)
Profit for the year	**52,436**	32,372
Profit attributable to shareholders of the Company	**53,159**	30,826
Non-controlling interests	**(723)**	1,546
Total comprehensive income for the year	**52,446**	32,362
Total comprehensive income attributable to shareholders of the Company	**53,166**	30,819
Non-controlling interests	**(720)**	1,543
EBITDA	**74,874**	49,313
Basic and diluted income per share for income attributable to the shareholders of the Company (RMB)	**0.0749**	0.0434

ASSETS AND LIABILITIES

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Total assets	**537,296**	358,881
Total liabilities	**(277,183)**	(157,814)
	260,113	201,067
Capital and reserves attributable to shareholders of the Company	**223,228**	170,062
Non-controlling interests	**36,885**	31,005
	260,113	201,067

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of the Company, I present the annual report of the Company together with its subsidiaries (collectively as "the Group") for the year ended 31 December 2012 for consideration by the shareholders.

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", relies on the technology of genetic engineering, drug delivery and photodynamic drug development, and positions ourselves to develop drugs with patents and commercialize drugs specific to the Chinese market.

Research and Development

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

In the area of R&D, the Company has obtained two New Drug Certificates the numbers of which are Guo Yao Zheng Zi H20120079 for materials and Guo Yao Zheng Zi H20120076 for injection issued by the State Food and Drug Administration for Hemoporfin (海姆泊芬), a photodynamic drug for the treatment of Port Wine Stain. Hemoporfin belongs to Chemical Drugs Class 1.1.

The application for clinical study for ALA (鹽酸氨酮戊酸), a photodynamic drug for the treatment of cervical diseases infected by HPV has been approved.

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 has been submitted. PCT patent application has been made for the project.

The Group has been taking the R&D of innovative drugs as its fundamental. By the end of the year 2012, the major drugs under R&D are summarized as follows:

Technical platform	Project name	Indications	Progress
Genetic Engineering Drugs	Recombinant tissue type plasminogen activator (r-tPA)	Heart infarction	Technology transferred, letter of approval for drug registration issued, royalty payment received
	Recombinant human lymphotoxin α-derivatives (LT)	Tumor	Clinical trial phase II

CHAIRMAN'S STATEMENT

Technical platform	Project name	Indications	Progress
	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 fusion protein mutant 高親和力重組人腫瘤壞死因子受體突變體-Fc融合蛋白)	Arthritis	Application for clinical study has been submitted
Photodynamic therapy drugs	ALA (艾拉®，鹽酸氨酮戊酸)	Condyloma acuminata	Launched for sale, accredited as Shanghai Hi-Tech Achievement Transfer Project, also accredited as "State Hi-tech Development Project" by NDRC
	Eyan (易妍®，鹽酸氨酮戊酸)	Acne	Launched for sale as one kind of cosmetic products
	ALA (鹽酸氨酮戊酸)	Cervical diseases infected by HPV	Application for clinical study has been approved
	Hemoporfin (海姆泊芬)	Port wine stain	Obtained the New Drug Certificate
	Deuteporfin (多替泊芬)	Tumors	Clinical trial phase I
Liposome drugs	Libod® (里葆多® Doxorubicin liposome, 鹽酸多柔比星脂質體)	Tumors	Launched for sale
	Vincristine Liposome (長春新鹼脂質體)	Tumors	Clinical trial phase I
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 Achievement Transfer Project and "National Torch Plan Project"
	Nifeviroc (尼非韋羅)	AIDS	Research AIDS prevention.

In February 2011, the Company has entered into the Strategic Cooperation Agreement with Shanghai Pharmaceutical Holding Co., Ltd ("Shanghai Pharmaceutical") for the cooperation on innovative pharmaceuticals research and development. Both parties will jointly share the risks of, and cooperate on, the research, development and commercialization of the relevant potential pharmaceuticals owned by the Company and its subsidiaries which are currently at various research stages. During the year 2012, the agreement was enforced as stipulated and R&D work was performed in order.

Intellectual Property Rights

The Group has been actively protecting its intellectual property rights (IPR) on its innovative medicines and research achievements. During the period under review, the Group applied for 2 invention patent, and has been granted 2 invention patents. By the end of the year 2012, the Group has cumulatively applied for 60 invention patents, and has been granted 27 invention patents.

Commercialization

During the period under review, the Group obtained satisfactory results on commercialization. Product sales revenue increased by 74% compared with 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 with a steady increase of sales volume and has become one of the largest consumed skin-cure drugs. Compared with last year, sales revenue of the product in 2012 increased 46%. It's expected that there will be a sustained and significant increase in the future.

Eyan (易妍®) for the treatment of acne was launched for sale in September 2010. Compare with last year, its revenue increased by 137% in 2012. It's expected that its sales will increase gradually.

Libod® (里葆多®) for the treatment of tumors, was launched for sale in August 2009 and it brought the favorable market response. It is expected to make big contribution to the sales revenue of the Group in future. In order to enhance the marketing and sales of Libod®, the Company signed "the Sole Agency Agreement" with China NT Pharma Group Company Limited in February 2011 and granted it the exclusive distribution rights of Libod®. After one year's cooperation, the parties agreed to adjust the sales strategy to let the Company enforce the control power of the promotion activities which consequently induced the increasing of revenue and selling expense.

Grants and Awards

The Group has always been improving its ability of new drug development in light of the industrial policies of the State. During the period under review, the Group obtained the following grants and awards for a number of R&D and commercialization projects:

Key New Drugs Creation "Targeting Anti-tumor Innovative Drugs Incubation Base Construction" obtained more financial aid of National Special Grant for Key S&T Project which totally amounting RMB5.8 million. As at 31 December 2012, the Company has obtained RMB2.48 million.

The Company obtained further financial support from the Shanghai City Construction & Technology project fund for the Company's "Development and Commercialization of Target Drugs for Tumors and Other Hyperblastosis" project. The grant totaling RMB8.19 million has been obtained during the year 2012.

CHAIRMAN'S STATEMENT

FUTURE PROSPECTS

The Group has been seeking to fulfill its core position of innovation and development of new drugs since the founding and made good progress. The published "Outline of the National Medium and Long-term Scientific and Technological Development Program (year 2006-2020)" has confirmed the direction of independent innovation with Chinese characteristics, and has also affirmed to support those enterprises to become principle force of tech-innovation. It calls for creating conditions, optimizing environment and intensifying reforms to truly strengthening motivation and vigor of enterprise technological innovation. Under the general environment, the Group will certainly obtain more and better development opportunities.

Through more than a decade of R&D for new drugs, the Group has a large number of projects which are commercialized or at a crucial point of being commercialized, completing the transformation from purely R&D to equal stress on both R&D and commercialization. In the future, the Group will focus its resources on both 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 partnership with reputable domestic institutions, such as 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. At the same time, the Group also made further collaboration with other R&D institutions at home and abroad. In the future, the Group will continue to devote efforts to the R&D of drugs with independent intellectual property rights.

The Group will still focus R&D on genetic engineering drugs, photodynamic drugs, and nano-drugs that have taken firm root. In particular, among these sectors, drugs for the treatment of dermal diseases and tumors will be of the most importance.

Genetic Engineering Drugs

The Group completed 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) and applied for the clinical trial. The drug is used to treat self-immunological diseases, such as arthritis. The size of potential market is enormous. The Group holds independent IPR of the drug and applied for PCT patent. It will be one of the key R&D projects of the Group.

Recombinant human lymphotoxin α-derivatives (rhLT) for the treatment of tumors has entered the clinical trial phase II. The product with independent IPR is one of the key R&D projects of the Group.

The antibody-drug conjugate, ADC shows obvious advantages on cancer treatment in clinical trials, which is much better than the effect of the conventional antibody combined with chemotherapy drugs. In order to follow the development trend in bio-pharmaceutical area, besides continuing the clinical trials for Recombinant human lymphotoxin α-derivatives (rhLT) (重組人淋巴毒素α衍生物) and 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), the Company will start to make research on antibody-drug conjugate, ADC such as CD30-MMAE.

Photodynamic Drugs

With the launch of the new photodynamic drug for the treatment of condyloma acuminate, ALA (艾拉®), the Group will focus on R&D of new indications, such as cervical diseases infected by HPV and GLIOMA. It is one of the key R&D projects of the Group. The Company has obtained the approval for the clinical study of new indications of ALA for the treatment of CIN infected by HPV.

The Company has obtained two New Drug Certificates, the numbers of which are Guo Yao Zheng Zi H20120079 for materials and Guo Yao Zheng Zi H20120076 for injection issued by the State Food and Drug Administration for Hemoporfin (海姆泊芬), a photodynamic drug for the treatment of port wine stain. Hemoporfin belongs to Chemical Drugs Class 1.1. The anti-tumor drug, Duteroporphyrin (多替泊芬) has entered the clinical trial phase I. In addition, the Company will make further research on new indications of ALA such as CIN and GLIOMA etc. They together with ALA, constitute a unique line of photodynamic drugs with independent IPRs.

Nano-Drugs

Vincristine Liposome (長春新鹼脂質體) to for the treatment of cancer has entered the clinical trial I. With large size of potential market, it is one of the key R&D projects of the Group.

In order to improve the capacity of research and development of nano-drugs and enrich the existing tumour drug product lines, besides continuing clinical trials of Vincristine Liposome (長春新鹼脂質體), the Company initiated the pre-clinical study for the Nanoparticle Albumin-bound Paclitaxel.

The Company has entered to an agreement with an American company and an institution recently. We will devote to the R&D work of echogenic liposomes containing Xenon for the treatment of stroke.

To keep in line with the key direction of R&D, the Group started working on the commercialization of the drugs for the treatment of dermal diseases and tumors from the year 2007 with appropriate product lines arranged, and will steadily launch the products to the market by stages in the next few years, so as to form product portfolio in the two directions:

CHAIRMAN'S STATEMENT

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 approved for launch for sale. 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. 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 sales revenue of the sales of the drug in the years to come will continue increasing sharply.

In respect of dermatology & venereology, the photodynamic drug Hemoporfin for the treatment of port wine stain will come up and the New Drug Certificate has been obtained. New indications of ALA (艾拉®) for the treatment of HPV-induced CIN (cervical intraepithelial neoplasia) was approved to enter into the clinical study.

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, Breast cancer has become the highest incident cancer for female. The market capacity of the drug is tremendous. It is estimated that the sales revenue will keep increasing sharply in the near future.

In the field of cancer treatment, subsequent drugs include Vincristine Liposome (長春新鹼脂質體) and lymphotoxin α-derivatives (淋巴毒素α-衍生物). Vincristine Liposome Injection for the treatment of malignant tumors has entered into the clinical trial phase I, while lymphotoxin α-derivatives (淋巴毒素α-衍生物) for the treatment of tumors has entered into the clinical trial phase II.

Schedule of the drugs to be launched in the next few years:

Name of drugs	Indications	Estimated launching time*
ALA (艾拉®，鹽酸氨酮戊酸)	Condyloma acuminata	Launched
Libod® (Doxorubicin Liposome, 里葆多®, 鹽酸多柔比星脂質體)	Tumors	Launched
Eyan (易妍®，鹽酸氨酮戊酸, a kind of cosmetic product)	Acne	Launched
Hemoporfin (海姆泊芬)	Port wine stain	2014
Vincristine Liposome (長春新鹼脂質體)	Tumors	2016
lymphotoxin α-derivatives (淋巴毒素α-衍生物)	Tumors	2016
ALA (鹽酸氨酮戊酸) (ALA-CIN)	CIN	2016
Duteroporphyrin (多替泊芬)	Tumors	2016
Nanoparticle Albumin-bound Paclitaxel (紫杉醇白蛋白納米粒)	Tumors	2017
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（rhTNFR*(m)*:Fc）)	Autoimmunity	2017

* The expected 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.

CHAIRMAN'S STATEMENT

Considering that more drugs are going to be registered, the subsidiary of the Group, Taizhou Pharmaceutical has constructed two production lines for the material and injection of Hemoporfinand and will make more investment on production lines in the next few years so as to become the centralized production base of the Group.

In the area of commercialization, the Group has realized production and sales on diagnostic reagents, ALA, Eyan and Libod. The sales revenue for the year 2012 has 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 purely R&D to equal stress on both R&D and commercialization with a complete system featuring organic combination of R&D, product manufacturing and marketing taken shape. The Group is moving toward a virtuous circle of development.

ACKNOWLEDGEMENT

Lastly, I would like to take this opportunity to express my gratitude to the shareholders and business partners of the Group for all their unreserved support and encouragement. I would also like to express my most sincere thanks to all the Directors and all the staff of the Group for their dedication and contribution.

Wang Hai Bo
Chairman

Shanghai, the PRC
19 March 2013

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 2012 amounted to approximately RMB232,527,000, comparing to RMB133,890,000 for the year 2011, representing an increase of 74%.

The total turnover for the year ended 2012 came from the sale of medical products, income from exclusive distribution rights and the revenue from technology transfer. The source of total turnover for the year ended 2011 was the same as that of this period of 2012.

Revenue from sale of medical products

Revenue of the Group from the sale of medical products for the year 2012 was RMB225,880,000 (or 97% of the total turnover), increased by 74% from that of last year which was RMB129,723,000. Sales of the major products of the Company, ALA and Libod, have contributed significant revenue to the Group.

Income from exclusive distribution rights

The Company signed the sole agency agreement (the "Sole Agency Agreement") with China NT Pharma Group Company Limited in February 2011 and granted it the exclusive distribution rights of Libod®. The agreement replaced the previous exclusive distribution agreement with Nanjing Medical. The total consideration was RMB20,000,000, of which, amount of RMB5,000,000 (or 2% of the total turnover) is recognized as revenue in 2012. It was recognized of RMB4,167,000 for the year 2011.

Revenue from technology transfer

Revenue from technology transfer for the year 2012 was approximately RMB1,647,000. Of which, RMB1,500,000 is the second receivable for a technology which was transferred to Taiwan Yongxin Bio-pharmaceutical Co., LTD 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.

COST OF SALES

For the year 2012, cost of sales of the Group was RMB23,557,000, while the corresponding figure for 2011 was RMB23,034,000. The ratio of cost of sales to revenue from sale of products dropped to 10% from the level of 18% for last year. The deduction of costs mainly benefits from the strict cost control that the Group executed. In addition, the Group sold certain ALA equipment and diagnostic products with low margin in the year 2011, which reduced the gross profit margin as a whole.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING PROFIT

For the year 2012, operating profit of the Group was RMB63,866,000, comparing to the operating profit RMB42,489,000 for the year 2011, representing an increase of 50%.

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

- Other income for the year 2012 was RMB48,223,000, compared with RMB36,868,000 for the year 2011, representing an increase of 31%. It is mainly because the Group has recognized related income amounting RMB28,814,000 in the year 2012 according to the Strategic Cooperation Agreement for innovative pharmaceuticals research and development signed with Shanghai Pharmaceutical (2011: RMB 23,420,000).

- R&D costs for the year 2012 was RMB45,312,000, compared with RMB32,891,000 for the year 2011, representing an increase of 38%.

- Distribution and marketing cost for the year 2012 was RMB126,620,000, compared with RMB54,596,000 of the year 2011, representing an increase of 132%. The ratio of distribution and marketing costs to revenue from sale of products increased to 54% from the level of 41% for last year. It is mainly because the Company adjusted the sales strategy which caused the increase of the percentage of selling expenses of Libod.

- Administration expenses for the year 2012 was RMB16,810,000, compared with RMB17,371,000 for the year 2011, representing a decrease of 3%. It is mainly due to the decrease of impairment losses of asset at the current period.

- Other operating expenses for the year 2012 was RMB4,585,000, compared with RMB377,000 for the year 2011, representing an increase of 1,116%. It is mainly due to the increase of loss on disposal of property, plant and equipment as a result of the reconstruction of the producing department and renew of equipment in the Company.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

A profit attributable to shareholders of the Company of RMB53,159,000 was recorded in the consolidated financial statements for the year 2012, compared with profit of RMB30,826,000 for the year 2011.

For the year 2012, the profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB53,406,000 (2011: profit of RMB27,782,000).

SIGNIFICANT INVESTMENTS

The Group set up a subsidiary – Shanghai Tracing Bio Technology Co., Ltd. ("Tracing") in November 2012. The original diagnosis business of the parent company was separated and integrated with a new third-party technology into Tracing. The new company will be primarily engaged in the development, production and sales of diagnostic products.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the year 2012, the Group did not have any material acquisitions or disposals of subsidiaries and associated companies.

CONTINGENT LIABILITIES

As at 31 December 2012, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

On 1 March 2012, 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. Particulars are set out in note 15 and 16 to the consolidated financial statements.

BANKING FACILITIES

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 22 November 2010 which would be due for repayment on 10 December 2013. The loan was unsecured.

On 14 September 2012 and 26 October 2012, the Company took two bank loans of RMB18,500,000 and RMB20,000,000 from one bank. The two loans were secured by the real estate property of the Company. The due dates were be 13 March 2013 and 25 April 2013, respectively.

On 23 May 2012 and 15 November 2012, the Company took two bank loans of RMB20,000,000 and RMB 15,000,000 from one bank. The due dates will be 22 May 2013 and 15 November 2013, respectively. The two loans were unsecured.

On 3 July 2012 and 30 November 2012, Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. ("Morgan-Tan"), a subsidiary of the Group, took two bank loans of RMB428,290 and RMB2,570,000 from one bank. The due dates were be 2 January 2013 and will be 29 May 2013, respectively. The two loans were unsecured.

On 21 March 2011, the long-term bank borrowings of RMB40,000,000 was taken by Taizhou Pharmaceutical, a subsidiary of the Group, and bore an interest rate of 6.40%. Among the long-term bank borrowings, RMB15,000,000 is secured by the leasehold land of Taizhou Pharmaceutical, and would be repaid on 21 March 2014; another RMB25,000,000 is guaranteed by the Company, and would be repaid on 20 March 2015.

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 extraordinary general meeting 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 registration procedures are under progress.

As at 31 December 2012, the plant in Taizhou was under construction.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2012, the Group had outstanding loans of RMB126,498,000, of which RMB47,998,000 is unsecured, and RMB78,500,000 is secured and guaranteed bank loans.

As at 31 December 2012, the Group had cash and cash equivalents of approximately RMB158,267,000.

The Group's gearing ratio as at 31 December 2012 was 0.14 (31 December 2011: 0.19) which is calculated based on the Group's net debt of RMB31,769,000 (31 December 2011: RMB31,759,000) and total capital of RMB228,344,000 (31 December 2011: RMB169,308,000).

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 2012, the Group had a total of 397 employees, as compared to 316 employees as at 31 December 2011. Staff costs including directors' remuneration for the year 2012 were RMB49,156,000, compared with RMB38,493,000 for the year 2011. The salaries and benefits of employees of the Group are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory social welfare plans, are also provided to employees.

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

REPORT OF THE DIRECTORS

The Board is pleased to present the annual report for the year 2012 and the audited consolidated financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

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

The Group's turnover for the year 2012 was generated from sale of medical products, the income of the exclusive distribution rights and the revenue from technology transfer.

An analysis of the Group's performance for the year ended 31 December 2012 by business segments is set out in note 39 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Proportion in the Group's total	
	Sales	**Purchases**
Largest customer	31.00%	
Total of the five largest customers	59.35%	
Largest supplier		40.91%
Total of the five largest suppliers		70.75%

Shanghai Pharmaceutical, a substantial shareholder of the Company, is a key account of the Company. The connected transaction has been approved by the general meeting. Save as above, none of the Directors, their respective associates or any shareholder of the Company who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company has any beneficial interest in any of the Group's five major customers or suppliers of the Group.

RESULTS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income and related explanatory notes to the consolidated financial statements.

DIVIDENDS

At the Board meeting on 19 March 2013, the Board did not propose any dividends for the year ended 31 December 2012.

SHARE CAPITAL

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

REPORT OF THE DIRECTORS

The placement of 142,000,000 H shares was completed on 4 February 2013. The total number of issued shares of the Company has increased from 710,000,000 shares to 852,000,000 shares as a result of the issuance of the Placing Shares. The total number of H Shares has increased from 198,000,000 H Shares to 340,000,000 H Shares upon Completion, and the number of Domestic Shares has remained unchanged at 512,000,000 Domestic Shares.

RESERVES

Details of movement in the reserves of the Group and of the Company during the year are set out in Consolidated Statement of Changes in Equity and note 36 to the financial statements. By 31 December 2012, there had no distributable reserve to the shareholders of the Company.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in property, plant and equipment of the Group for the year are set out in note 16 to the consolidated financial statements.

STAFF RETIREMENT BENEFIT SCHEME

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

STAFF QUARTERS

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

DIRECTORS AND SUPERVISORS

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

Executive Directors

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

Non-Executive Directors

Fang Jing
Hao Hong Quan
Zhu Ke Qin
Ge Jian Qiu (Resigned on 29 June 2012)
Ke Ying
Shen Bo (Appointed on 29 June 2012)

Independent Non-Executive Directors

Pan Fei
Cheng Lin
Weng De Zhang

Supervisors

Zhu Zu Shun
Bao Qi (Resigned on 29 June 2012)
Chen Meng Zhao (Appointed on 29 June 2012)
Zhang Man Juan
Guo Yi Cheng
Xu Qing

CORPORATE GOVERNANCE

The Board has always been endeavoring in achieving a better corporate governance level, and has been trying to fully comply with the relevant corporate governance regulations of the Listing Rules. Details of corporate governance of the Group are set out in the following reports of the annual report:

1) Corporate governance report

2) Report of the supervisory committee

3) Report of the audit committee

4) Report of the remuneration committee

5) Report of the nomination committee

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

PROFILE OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

Details of emoluments of Directors, Supervisors, Senior Management and highest paid individuals are set out in note 13 to the consolidated financial statements.

REPORT OF THE DIRECTORS

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

Refer to "Rights of directors, chief executive and supervisors in purchasing shares or debentures" section of the "Corporate governance report".

DETAILS OF OPTIONS GRANTED BY THE COMPANY

On 23 June 2002, the Company adopted a share option scheme 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. The scheme has now been expired.

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.

RESTRICTED SHARE SCHEME

On 29 June 2012, the Company adopted a Restricted Share Scheme.

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

As at the reporting day, the Company has not completed the first grant to the Scheme Participants.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

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

As at 31 December 2012, the interests (if any) of the Directors, chief executive and Supervisors and their respective associates in the shares or debentures (including interests in shares and/or short positions) of the Company and its associated corporations, (a) as notified to the Company and the Stock Exchange pursuant to: Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO"); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as notified to the Company and the Stock Exchange pursuant to 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 2012, 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 H Shares	139,578,560 (L) 70,564,000 (L)	Interest of controlled corporation	Corporate	27.26% 35.64%	29.60%
Shanghai Pharmaceutical Holding Co., Ltd.	Domestic Shares H Shares	139,578,560 (L) 70,564,000 (L)	Beneficial Owner	Corporate	27.26% 35.64%	29.60%
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%

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 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)	Interest of controlled corporation	Corporate	5.98%	4.31%
Shanghai Fudan Asset Operating Limited (上海復旦資產經營有限公司)	Domestic Shares	30,636,286 (L)	Beneficial Owner	Corporate	5.98%	4.31%

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

Note 2: China General Technology (Group) Holding, Limited has sold its entire interest in the Company to China New Enterprise Investment Fund II and the relevant procedures have been completed on 27 February 2013.

Note 3: Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. has sold its entire interest in the Company to third parties, but the transfer and registration procedures have not yet been completed.

CONNECTED TRANSACTIONS

For the year ended 31 December 2012, the connected transactions are mainly included as follow:

During the year 2012, the product sales revenue to Shanghai Pharmaceutical Distribution Co., Ltd.("Shanghai Pharmaceutical Distribution"), a wholly-owned subsidiary of a major shareholder, Shanghai Pharmaceutical, was RMB12,687,000, which is under the proposed annual cap approved in the extraordinary general meeting held on 29 October 2010. In February 2011, the Group entered into "the Sole Agency Agreement "with China NT Pharma Group Company Limited and would not sell Libod® to Shanghai Pharmaceutical Distribution directly, which led to significant difference in the year 2011 and 2012 between the connected transaction revenue with Shanghai Pharmaceutical Distribution and the proposed annual cap approved in the extraordinary general meeting held on 29 October 2010.

During March 2010, the Company transferred the construction-in-progress project to a wholly-owned subsidiary of Shanghai Zhangjiang Hi-Tech Park Co. (first transfer), according to the Cooperation Framework Agreement. This is a connected and disclosable transaction. The Company made an announcement on 7 March 2008. The transaction was approved on the extraordinary general meeting held on 23 May 2008. The transaction has entered into phase II, and the registration procedures are under progress.

During February 2011, the Company has entered into the Strategic Cooperation Agreement with Shanghai Pharmaceutical for the cooperation on innovative pharmaceutical research and development. Both parties will jointly share the risks of, and cooperate on, the research, development and commercialization of the relevant potential pharmaceuticals owned by the Company and its subsidiaries which are currently at various research stages. This is a connected and disclosable transaction. The Company made an announcement on 23 February 2011 and the transaction has been approved on the annual general meeting held on 27 May 2011. During the year 2012, the Company recognized the cooperation development income with Shanghai Pharmaceutical amounting to RMB 28,814,000, which is under the proposed annual cap approved in the annual general meeting held on 27 May 2011.

The independent non-executive Directors have reviewed the above mentioned continuing connected transactions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms or on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to HK Stock Exchange on 19 March 2013.

SECURITIES TRANSACTIONS BY DIRECTORS

Refer to "Directors' securities transactions" section of the "Corporate governance report" for more details.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2012.

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.

REPORT OF THE DIRECTORS

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 internal controls and 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 2012 before proposing to the Board for approval.

For more details, refer to "Report of audit committee" of "Audit committee" section of the "Corporate governance report".

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers. The Company has not changed the 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. Hao Hong Quan *(Non-executive Director)*
Mr. Zhu Ke Qin *(Non-executive Director)*
Ms. Ke Ying *(Non-executive Director)*
Mr. Shen Bo *(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
19 March, 2013

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders:

The Supervisory Committee of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Supervisory Committee") for the year 2012 has performed its duties in accordance with the relevant provisions and requirements of the Company Law and the Articles of Association, and the Supervisors have attended all board meetings. They reviewed the Company's relevant financial statements and gave advice and recommendations on the related issues reflected in the Company's operations and management.

The Supervisory Committee duly supervised the Directors and Senior Management's compliance with the State's laws and regulations as well as the Articles of Association, in carrying out their duties, and the legal procedures on the change of directorship. The Supervisory Committee held the opinion that there was no violation of the State's laws and regulations or the Articles of Association by the Directors and Managers during the year 2012.

To the point of view of the Supervisory Committee, the resolutions passed in all board meetings for the year 2012 had been made with a view to protecting the Company's interests. No insider dealings, or anything which was prejudicial to the interests of the Company, or loss of Company's assets was acknowledged. The auditors' reports issued by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company are true and objective. The Company's financial statements have accurately reflected the Company's financial position.

The Supervisory Committee is satisfied with the achievement and progress of each task of the Company in 2012 and has great confidence in the future of the Company.

Supervisory Committee

Mr. Zhu Zu Shun
Mr. Chen Meng Zhao
Ms. Zhang Man Juan
Mr. Guo Yi Cheng
Mr. Xu Qing

Shanghai, the PRC
19 March, 2013

REPORT OF AUDIT COMMITTEE

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

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

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

Summary of the work done by the Audit Committee in 2012 is as follows:

1) Review the financial reports for the year ended 31 December 2011 and for the half year ended 30 June 2012, and the quarterly reports ended 31 March 2012 and 30 September 2012, respectively;

3) Review connected transactions during the year 2011;

3) Oversight of the Company's financial reporting system and internal control procedures;

4) Review the external audit arrangements and related explanations;

5) Review and approve the audit fees for 2012.

The Audit Committee meeting held on 19 March 2013 reviewed the Company's 2012 consolidated financial statements together with the Company's external auditors, including a review of the accounting principles and practice principles adopted by the Group. Based on the results of the review and after discussion with the management and the auditors, the Audit Committee agreed upon the accounting treatments adopted by the Company, and has made efforts to ensure that the financial information disclosed in the consolidated financial statements comply with relevant requirements of the applicable accounting principles and Listing Rules. Accordingly, the Audit Committee proposes that the Board approves the announcement of the consolidated financial statements for the year ended 31 December 2012 and, the Audit Committee proposes that the Board to consider the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs LLP as the international and the statutory auditors of the Group, respectively, for the year 2013.

REPORT OF AUDIT COMMITTEE

The Audit Committee has held regular meetings, at least four times annually, and in 2012, the Audit Committee has held four meetings.

Audit Committee

Mr. Pan Fei *(Chairman)*
Mr. Weng De Zhang *(vice Chairman)*
Mr. Cheng Lin

Shanghai, the PRC
19 March, 2013

REPORT OF REMUNERATION COMMITTEE

The Remuneration Committee is comprised of 4 members, who are: Mr. Cheng Lin (Chairman, Independent Non-executive Director), Mr. Pan Fei (Independent Non-executive Director), Mr. Weng De Zhang (Independent Non-executive Director) and Ms. Fang Jing (Non-executive Director).

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

The "Principles of the Remuneration Committee" passed by the Board of the Company specifically laid down the terms of reference of the Remuneration Committee, elaborated its role and the power as conferred to the Committee by the Board. The Remuneration Committee has sufficient resources to carry out its duties. If necessary, it also makes references to the opinions of external human resources advisers in respect of human resources management and remuneration policies. After each meeting, the Remuneration Committee reports to the Board. The Remuneration Committee is liable to the Board, and the minutes of its meetings are to be submitted to the Board for circular.

REPORT OF REMUNERATION COMMITTEE

Summary of the work done by the Remuneration Committee in 2012 is as follows:

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

2) Review the remuneration scheme for the Directors and Supervisors for the year 2011;

3) Lay down the remuneration scheme for the Directors and Supervisors for 2012;

4) Review the company's restricted shares scheme.

The Remuneration Committee has held two meetings in 2012.

Remuneration Committee

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

Shanghai, the PRC
19 March, 2013

REPORT OF NOMINATION COMMITTEE

The Nomination Committee is comprised of 4 members, who are: Mr. Wang Hai Bo (Chairman, Chairman of Board of Directors), Mr. Cheng Lin (Independent Non-executive Director), Mr. Pan Fei (Independent Non-executive Director) and Mr. Weng De Zhang (Independent Non-executive Director).

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

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

In the year 2012, there is no meeting held because of the time of set up. However, the relevant members were involved in the work of the resign and appointment of the directors.

Nomination Committee

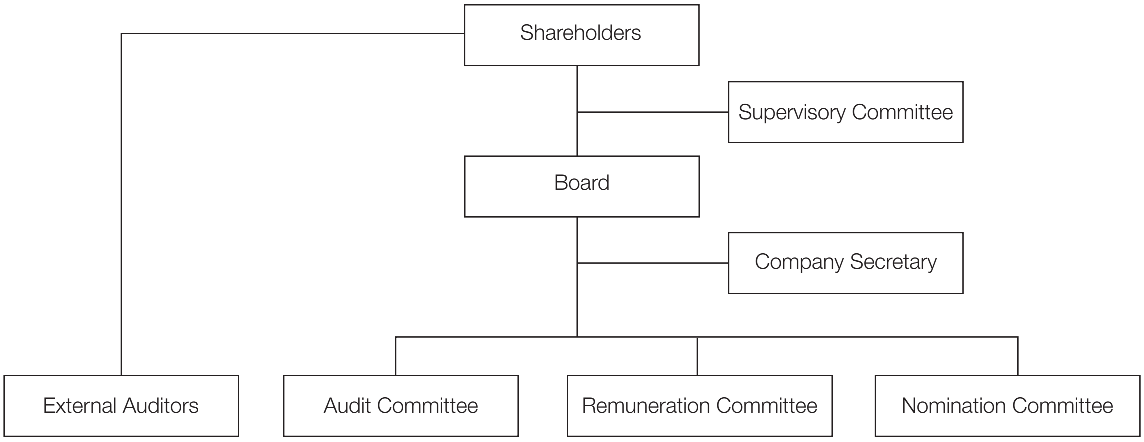
Mr. Wang Hai Bo *(Chairman)*
Mr. Cheng Lin
Mr. Pan Fei
Mr. Weng De Zhang

Shanghai, the PRC
19 March, 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Company's corporate governance structure is as follows:



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

a) Articles of Association;
b) Principles of the Audit Committee;
c) Principles of the Remuneration Committee;
d) Principles of the Nomination Committee;
e) Principles regarding transactions in the Company's securities;
f) Daily management documents of the Company.

The Board has reviewed the documents relating to corporate governance policies adopted by the Company and considered that it had complied with most of the principles and codes set out in the "Code on Corporate Governance Practices" (effective until 31 March 2012) and the "Corporate Governance Code" (effective from 1 April 2012) (the "Code") under Appendix 14 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). In some aspects, the codes of corporate governance adopted by the Company are even stricter than the provisions as set out in the "Code". Hereunder are the points which are stricter than or deviate from the provisions in the "Code".

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

– All members of the audit committee of the Company (the "Audit Committee") are independent non-executive directors.

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

- The chairman and the general manager is the same person. Although the articles of association of the Company (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 scale of the Company is relatively small, with its businesses mainly focused in the area of 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 being taken by one person is beneficial for the Company's development at the present stage. Along with the development of the Company, the Board will consider the segregation of chairman and chief executive duties.

- Pursuant to Code A.5.1, the Company has only established its nomination committee on 11 April 2012.

- Pursuant to Rules 5.05A and 5.06 of the GEM Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the Board. Owing to communication and coordination issues, the Company has only been able to identify a suitable candidate to be an additional independent non-executive director on 19 March 2013 and the relevant announcement has been disclosed on the same day.

BOARD

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

Directors

Currently, the Board comprises the Chairman, another two Executive Directors, five Non-executive Directors and three Independent Non-executive Directors. Except for Mr. Shen Bo who joined the Board as Non-executive Director on 29 June 2012, all the other Directors were in place in the whole year of 2012.

CORPORATE GOVERNANCE REPORT

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

Directors	Time of first appointment	Date of recent re-appointment	Term
Executive Directors			
Wang Hai Bo *(Chairman)*	11 November 1996	27 May 2011	Three years
Su Yong	20 January 2002	27 May 2011	Three years
Zhao Da Jun	20 January 2002	27 May 2011	Three years
Non-executive Directors			
Fang Jing	20 January 2002	27 May 2011	Three years
Hao Hong Quan	8 June 2007	27 May 2011	Three years
Zhu Ke Qin	23 May 2008	27 May 2011	Three years
Ge Jian Qiu	27 May 2011	27 May 2011	Resigned on 29 June 2012
Ke Ying	27 May 2011	27 May 2011	Three years
Shen Bo	29 June 2012	29 June 2012	Three years
Independent Non-executive Directors			
Pan Fei	20 June 2003	27 May 2011	Three years
Cheng Lin	10 July 2002	27 May 2011	Three years
Weng De Zhang	20 June 2003	27 May 2011	Three years

The Company's Independent Non-executive Directors have a wide range of skills and experience. They are able to serve the important function of providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole. The Board considers that they can effectively make independent judgments in compliance with the guidelines under rule 5.09 of the "Listing Rules" regarding independence in assessments.

All the Directors have the terms for not more than three years, and can be re-nominated for re-election in the AGM.

Powers of the Board

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

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

2) Implementing the resolutions of the general meetings;

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

4) Formulating annual financial budget plans and final accounting plans of the Company;

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

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

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

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

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

10) Setting the basic management policies of the Company;

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

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

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

CORPORATE GOVERNANCE REPORT

Chairman and the General Manager

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

Board Meetings

The Chairman is responsible for the leadership of the Board, ensuring the effectiveness of the Board in all aspects of its role and for setting its agenda and taking into account any matters proposed by other Directors for inclusion in the agenda. The agenda and accompanying board papers are circulated where possible at least three days before the time of a board or committee meeting. The Chairman is also responsible for making sure all Directors are properly briefed on issues arising at board meetings. The Chairman ensures that the Directors receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Group through their initial induction, ongoing participation at board and committee meetings, and through meeting key people at Head Office and in the divisions.

All Directors have access to the services of the Company Secretary who regularly updates the Board on governance and regulatory matters. Any Director, wishing to do so in the furtherance of his or her duties, may take independent professional advice through the Chairman at the Company's expense. The availability of professional advice extends to the Audit and Remuneration Committees.

Minutes of board meetings are taken by the Company Secretary and, together with any supporting board papers, are available to all board members. Board meetings are structured to encourage open discussion and frank debate to ensure the Non-executive Directors provide an effective challenge to each Executive Director. When necessary, the Independent Non-executive Directors meet privately to discuss matters which are associated with their specific responsibility.

In furtherance of good corporate governance, the Board has established three sub-committees: an Audit Committee, a Remuneration Committee and a Nomination Committee. All of them have terms of reference which accord with the principles set out in the "Corporate Governance Code". The Company Secretary takes minutes of the meetings of these committees and the work of these committees is reported to the Board.

The Board met five times during 2012. The attendance of individual directors at the board meetings is set out in the table below.

Members of the Board	Attendance in person/ Times of meetings	Attendance Rate
Executive Directors		
Wang Hai Bo *(Chairman)*	5/5	100%
Su Yong	5/5	100%
Zhao Da Jun	5/5	100%
Non-executive Directors		
Fang Jing	5/5	100%
Hao Hong Quan	4/5	80%
Zhu Ke Qin	0/5	0%
Ge Jian Qiu (Resigned on 29 June 2012)	0/2	0%
Ke Ying	5/5	100%
Shen Bo (Appointed on 29 June 2012)	2/3	67%
Independent Non-executive Directors		
Pan Fei	5/5	100%
Cheng Lin	3/5	60%
Weng De Zhang	3/5	60%

Note: Attendance by proxy on behalf of the Directors is not deemed to be attendance in person. Occasions for the Directors delegating a proxy for attendance are, Mr. Zhu Ke Qin 4 times, Mr. Cheng Lin and Mr. Weng De Zhang twice respectively, and Mr. Hao Hong Quan and Mr. Shen Bo once respectively.

CORPORATE GOVERNANCE REPORT

The table below sets out the time and major agenda of Board meetings in 2012:

Time of Board meetings	Major agenda
Regular Board meetings	
8 March 2012	Reviewed annual report of 2011; Considered the re-engagement of the auditors; Considered 2012 remuneration plans for Directors and Supervisors; Determined the time for AGM.
11 April 2012	Considered the Company's H shares issuance motion; Considered the implementation of the motion of restricted share incentive plan; Considered change of Directors and Supervisors; Considered the appointment of the members of Nomination Committee; Reviewed the Principles of Audit Committee, Remuneration Committee and Nomination Committee.
10 May 2012	Reviewed the first quarter results report of 2012
8 August 2012	Reviewed the interim results report of 2012; Considered set entity Shanghai Tracing Bio-Technology Co., Ltd.
7 November 2012	Reviewed the third quarter results report of 2012.

Directors' Training

The Board organized two trainings during 2012, the attendance of which was as follows:

Members of the Board	Attendance/ Times of trainings	Attendance Rate
Wang Hai Bo *(Chairman)*	2/2	100%
Su Yong	2/2	100%
Zhao Da Jun	2/2	100%
Fang Jing	2/2	100%
Hao Hong Quan	2/2	100%
Zhu Ke Qin	1/2	50%
Ge Jian Qiu (Resigned on 29 June 2012)	1/1	100%
Ke Ying	2/2	100%
Shen Bo (Appointed on 29 June 2012)	1/1	100%
Pan Fei	2/2	100%
Cheng Lin	2/2	100%
Weng De Zhang	2/2	100%

Directors' and Supervisors' Interests

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

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 2012.

Directors and Supervisors' Service Contracts

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

CORPORATE GOVERNANCE REPORT

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

None of the Directors, chief executive or Supervisors or their spouse or children of under age 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 the year 2012.

Interests of Directors, chief executive and Supervisors in the Shares of the Company

Refer to the section headed "Directors, Chief Executive and Supervisors" in the Report of Directors.

SUPERVISORY COMMITTEE

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

Supervisors	Time of initial appointment	Date of latest re-appointment	Term
Zhu Zu Shun (Shareholders' representative supervisor)	16 June 2006	27 May 2011	3 years
Bao Qi (Shareholders representative supervisor)	12 June 2009	27 May 2011	Resigned on 29 June 2012
Chen Meng Zhao (Shareholders representative supervisor)	29 June 2012	29 June 2012	3 years
Zhang Man Juan (Staff representative supervisor)	24 June 2005	27 May 2011	3 years
Guo Yi Cheng (Independent Supervisor)	23 May 2008	27 May 2011	3 years
Xu Qing (Independent Supervisor)	23 May 2008	27 May 2011	3 years

In 2012, the Supervisors attended all Board meetings, and considered related resolutions. For details, please refer to the "Report of the Supervisory Committee" of the annual report.

DIRECTORS' SECURITIES TRANSACTIONS

The amended "Code of transactions in the Company's securities", which was passed through on 11 August 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 quarter and half-year 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 delegated directors 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 2012.

INTERNAL CONTROL

The Company's Audit Committee and the Board have reviewed the effectiveness of the internal control system of the Group during the year 2012. In February 2011, the Company set up the Internal Audit and Control Department to enhance its internal control system and guarantee the effectiveness of the Company in respect of financial, operational, compliance and risk management.

The Company will further enhance the Company's internal control system pursuant to the requirements of the "Listing Rules" on internal control, to ensure that the Company's financial, operational, compliance and risk management are under effective control during the process of its continuing development, and to protect the interests of shareholders.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial report, internal control and corporate governance issues and making relevant recommendations to the Board. All the members are Independent Non-executive Directors: Mr. Pan Fei, Mr. Weng De Zhang and Mr. Cheng Lin. Mr. Pan Fei was appointed as the chairman of the Committee. Mr. Pan Fei is a member of the American Accounting Association. Other members also have the appropriate professional qualifications in accounting or related financial management.

The Company has set up specific "Principles of the Audit Committee" as a guideline for the Audit Committee in dealing with various matters.

The Audit Committee met four times in 2012. Senior management and/or external auditors were invited to attend each meeting. In 2012, the Audit Committee has reviewed reports of external auditors, the accounting principles and practices adopted by the Group, internal controls and listing rules and statutory compliance, and reviewed issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee made discussions on the Group's 2012 quarter, half-year results and 2011 annual results before proposing to the Board for approval. The Audit Committee has discussed the appointment of external auditors and the related fees, and has made proposals to the Board in respect of such matters.

Attendance of meetings of the Audit Committee in 2012:

Audit Committee	**Attendance in person/ Times of meetings**	**Rate**
Pan Fei *(chairman)*	4/4	100%
Weng De Zhang *(vice chairman)*	2/4	50%
Cheng Lin	2/4	50%

Note: Occasions for the Members delegating a proxy for attendance are, Mr. Cheng Lin and Mr. Weng De Zhang twice respectively.

Connected transactions

The Audit Committee has reviewed the connected transactions. For the year ended 31 December 2012, the connected transactions were either exempted from disclosures or have been approved by the General Meeting.

External auditors

The Group appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the Group's international and statutory auditors respectively in 2012. The Company has not changed the auditors in the past three years. Hereunder are the fees on the audit services and related expenses for the year and the previous year:

Auditor	**Audit fees in 2012**	Audit fees in 2011
PricewaterhouseCoopers	**RMB828,000**	RMB760,000
PricewaterhouseCoopers Zhong Tian CPAs Limited Company	**RMB472,000**	RMB450,000

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

REMUNERATION COMMITTEE

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

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

The Board established a Remuneration Committee, and stipulated clearly the "Principles of the Remuneration Committee", with specific terms of reference of the Remuneration Committee. The Remuneration Committee is comprised of 4 members, who are: Mr. Cheng Lin (Chairman, Independent Non-executive Director), Mr. Pan Fei (Independent Non-executive Director), Mr. Weng De Zhang (Independent Non-executive Director) and Ms. Fang Jing (Non-executive Director).

The Remuneration Committee held two meetings during 2012, the attendance of which was as follows:

Remuneration Committee	**Attendance in person/ Times of meetings**	**Rate**
Cheng Lin *(chairman)*	1/2	50%
Pan Fei	2/2	100%
Weng De Zhang	2/2	100%
Fang Jing	2/2	100%

Note: Occasions for the Members delegating a proxy for attendance is, Mr. Cheng Lin once.

Pursuant to the principles listed above, recommended by the Remuneration Committee and approved by the Board and General Meeting, the remuneration of the Directors and senior executives of the Group have been modified during the Year 2012. Emoluments of Directors and senior managements for 2012 refer to note 13 to the Financial Statements.

Remuneration Policy for Executive Directors

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

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

Basic salaries

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

Discretionary bonus

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

Options

The Company has adopted a Share Option Scheme on 23 June 2002, pursuant to which options will be granted to the Directors and the staff of the Company, to subscribe for Shares in the Company with terms and conditions as specified in the Share Option Scheme. However, due to some restrictions under the laws and regulations, the Company has not granted or agreed to grant any options to any parties under the Share Option Scheme prior to the date of this report. The plan has been expired on 22 June 2012.

Statutory benefits

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

Remuneration for Non-executive Directors

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

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

NOMINATION COMMITTEE

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

The Board of the Company set up the Nomination Committee in April 2012 and approved "the Principles of the Nomination Committee" identifying the terms of reference for the Nomination Committee. The Nomination Committee is comprised of 4 members, who are: Mr. Wang Hai Bo (Chairman, Chairman of Board of Directors), Mr. Cheng Lin (Independent Non-executive Director), Mr. Pan Fei (Independent Non-executive Director) and Mr. Weng De Zhang (Independent Non-executive Director).

In the year 2012, there is no meeting held because of the time of set up. However, the relevant members were involved in the work of the resign and appointment of the directors.

COMPANY SECRETARY

During the year 2012, the Company Secretary has completed over 15 hours training provide by the professional agents.

RIGHTS OF INVESTORS

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

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

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

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

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

The Company is committed to fair disclosure and comprehensive, transparent reporting. The Chairman is ultimately responsible for ensuring that there is effective communication with investors and that the Board understands the views of investors. The Chairman therefore makes himself available to meet shareholders for this purpose. On a day-to-day basis the Board's primary contact with shareholders is through the Company Secretary. In addition, the Company Secretary may respond to the various enquiries of shareholders, and provide relevant information.

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

RELATIONSHIP WITH INVESTORS

Reference is made to the announcement of the Company dated 20 January 2009, the public float of the Company has been lowered to 17.95%. On 4 February 2013, the Company has completed the placement of 142,000,000 H shares, which alleviated the problem of insufficient public float. After the placement, the public float of the company will reach 31.62%.

For the year 2012, there is no significant change on the Articles of Association of the Company.

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

In 2012, the Company has held an AGM, details of which are as follows:

Time	10:00 a.m., 29 June 2012
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Shareholders annual general meeting
Way of voting	Poll
Major issues	General matters of the AGM; Consider to allot and issue 142,000,000 new H shares; Consider the adoption of the Restricted Share Scheme and the issuance of not more than 71,000,000 domestic shares as Restricted Shares under the Restricted Share Scheme.

In 2012, the Company has held a H Shareholders Class Meeting, details of which are as follows:

Time	11:00 a.m., 29 June 2012
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	H Shareholders Class Meeting
Way of voting	Poll
Major issues	Consider to allot and issue 142,000,000 new H shares; Consider the adoption of the Restricted Share Scheme and the issuance of not more than 71,000,000 domestic shares as Restricted Shares under the Restricted Share Scheme.

In 2012, the Company has held a Domestic Shareholders Class Meeting, details of which are as follows:

Time	11:30 a.m., 29 June 2012
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Domestic Shareholders Class Meeting
Way of voting	Poll
Major issues	Consider to allot and issue 142,000,000 new H shares; Considerthe adoption of the Restricted Share Scheme and the issuance of not more than 71,000,000 domestic shares as Restricted Shares under the Restricted Share Scheme.

The attendance of individual directors at the general meetings during the year 2012 is set out in the table below.

Member of the Board	Attendance	Attendance Rate
Executive Director		
Wang Hai Bo *(Chariman)*	3/3	100%
Su Yong	3/3	100%
Zhao Da Jun	3/3	100%
Non-executive Director		
Fang Jing	3/3	100%
Hao Hong Quan	0/3	0%
Zhu Ke Qin	0/3	0%
Ke Ying	3/3	100%
Shen Bo(Appointed on June 29, 2012)	–	–
Independent Non-executive Director		
Pan Fei	3/3	100%
Cheng Lin	3/3	100%
Weng De Zhang	3/3	100%

Arrangements for the dates of the quarterly results, interim results and AGM in 2012 are as follows:

Items	Proposed time
Announcement of 2012 results	19 March 2013
Announcement of 2013 first quarterly results	Around 10 May 2013
AGM	Around June 2013
Announcement of 2013 interim results	Around 10 August 2013
Announcement of 2013 third quarterly results	Around 8 November 2013

ENVIRONMENT AND SOCIETY

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

The Company will be published the Environmental Report of 2012 on the Company's Web Site.

By order of the Board
Xue Yan
Secretary

Shanghai, the PRC
19 March, 2013

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Wang Hai Bo, aged 52, is an executive Director, the chairman of the Board and general manager of the Company. He founded the Company in November 1996. He graduated from Fudan University with a master's degree in biology and was an associate professor there. He has published numerous articles, earning him awards such as the State Star Fire Grade III Award (國家星火三等獎), Education Committee Grade II Award (教委二等獎) to Technology Advancement Award of the Shanghai Province (上海市科技進步獎). He was the former chief technology officer of Zhejiang Shenghua Biok Biology Co. Ltd., a listed company in the PRC. He was appointed as an executive Director in November 1996.

Su Yong, aged 48, is an executive Director and deputy general manager of the Company. He joined the Company in April 1997. He graduated from Zhejiang University with a Ph.D. in Oncology and from Fudan University with a master's degree in Biochemistry. He has been working in the field of genetic engineering for over nine years. He was the chief engineer of Hangzhou Jiuyuan Gene Engineering Co., Ltd. He was appointed as an executive Director in January 2002.

Zhao Da Jun, aged 42, is an executive Director, deputy general manager, compliance officer and an authorized representative of the Company. He is a cofounder of the Company. He graduated from Fudan University with a master's degree in biology. He also holds a master's degree in Business Administration from the University of Hong Kong. He has been awarded the National Education Committee on Technology Advancement Grade II Award (國家教委科技進步二等獎) in 1997. He was appointed as an executive Director in January 2002.

Non-Executive Directors

Fang Jing, aged 43, is the general manager of Investment Management Department of ZJ Hi-tech Park Co. She graduated from Shanghai Finance College majoring in finance. She was the former financial controller of the Company. She was appointed as a non-executive Director in January 2002.

Hao Hong Quan, aged 56, graduated from Renmin University of China with a Ph.D. in economics, Senior International Business Specialist, is the Vice General Manager of Genertec Pharmaceutical Holding, Ltd. He worked previously as the Vice General Manager of JXPR Compressor Co. Ltd, chairing Vice General Manager of CNTIC Development Co. Ltd, chairing Vice General Manager of Genertec Industrial Co. Ltd, Vice General Manager of China National Technical Import & Export Corporation (CNTIC), and Vice General Manager of Assets Management Department of China General Technology (Group) Holding, Ltd (Genertec). He was appointed as a non-executive Director in June 2007.

Zhu Ke Qin, aged 61, is a fellow researcher and senior engineer. He is currently the director of Enterprise Management Center of Shanghai Education Committee. He used to be the Assistant to President of Fudan University, a member of the University Council, the General Manager of Fudan Asset Management Co., Ltd, and the General Manager of Fudan Enterprise Development Co., Ltd. He has won the Top Award of State Scientific and Technology Progress, the Second Prize of Shanghai Scientific and Technology Progress, and the Magnolia Prize of Shanghai Educational Committee. He was appointed as a non-executive Director in May 2008.

Ke Ying, aged 44, is a senior engineer. She graduated from East China Normal University with master's degree in Organic Chemistry. She is currently the Deputy General Manager of Research and Development Department of Shanghai Pharmaceutical Holding Co., Ltd. She used to be the deputy manager of Shanghai Si Wei Pharmaceutical Technical Co., Ltd. (上海斯威醫藥化學技術有限公司); the project manager and assistant general manager of Shanghai Kaiman Bio-technology Co., Ltd. (上海凱曼生物科技有限公司), the minister of Resource Department and the assistant principal of the Central Research Institute of Shanghai Pharmaceutical Holding Co., Ltd. She has extensive management experience in R&D of drugs. She was appointed as a non-executive Director in May 2012.

Shen Bo, aged 40, is a CPA registered in China, and obtained master degree of Professional Accounting from the Chinese University of Hong Kong and bachelor degree of accounting from the Shanghai Institute of Construction Materials Industry. He is the CFO and general manager of the financial department of Shanghai Pharmaceutical Holding Co., Ltd, and concurrently appointed as the Chairman of Shanghai Medical Instrument Co., Ltd.; Supervisor of Shanghai Pharmaceutical Distribution Co., Ltd.; Director of SPH Keyuan Xinhai Pharmaceutical Co., Ltd. and Director of Changzhou Pharmaceutical Co., Ltd. He used to be the deputy manager of the financial department of Shanghai Jinling Co., Ltd.; financial director of Shanghai Jinling Tai Ke IT Development Co., Ltd.; project manager of Investment Bank of Northeast Securities; CFO of Shanghai Industrial Pharmaceutical Investment Co., Ltd. and general manager of the financial department of Shanghai Pharmaceutical (Group) Co., Ltd. He was appointed as a non-executive Director in June 2012.

Independent Non-Executive Directors

Pan Fei, aged 56, is a professor and vice dean of the accounting department at Shanghai University of Finance and Economics (上海財經大學). He is an associate member of the American Lecture of Certified Public Accountants. He graduated from Shanghai University of Finance and Economics with a doctorate degree in Accounting. He has published numerous articles in various financial and economics publications in the PRC and has got several awards. He was appointed as an independent non-executive Director in June 2003.

Cheng Lin, aged 49, is a professor in Shanghai University of Finance and Economics. He holds doctorate degree in economics from Shanghai University of Finance and Economics(上海財經大學). He has published numerous articles in various financial and economics publications in the PRC. He was appointed as an independent non-executive Director in July 2002.

Weng De Zhang, aged 49, is the President of Huai Hai Sub-branch of Industrial Bank Co., Ltd. He graduated from Remin University of China（中國人民大學）and obtained a master's degree in business administration from Asia International Open University (Macau). He was the chief accountant of the Planning and Finance division of the Shanghai Electricity College. Later, he became an assistant director of audit and the financial controller of the Shanghai Electricity Hi-Tech United Company. He was appointed as an independent non-executive Director in June 2003.

SUPERVISORS

Zhu Zu Shun, aged 45, graduated from Tianjin University of Finance and Economics with a Master's degree. He has many years' experience engaging in finance and audit. He used to be the deputy general manager of the Audit Division of China National Machinery Imp. & Exp. Corp and the general manager of the Audit Division of China General Technology (Group) Holding, Ltd. He is currently the general manager of China General Technology (Group) Pharmaceutics Holding, Ltd. He was appointed as a supervisor representing shareholders in June 2006.

Chen Meng Zhao, 36, graduated from Huazhong Science and Technology University with a Bachelor's degree in Mechanical Engineering, and obtained his Bachelor of Law from Fudan University. Mr. Chen has long term legal practicing experience and once served as a partner of a law firm. He has rich legal experience in handling corporate mergers and acquisitions and investments. Mr. Chen is currently the legal manager of Shanghai Pudong Science and Technology Investment Co., Ltd. He was appointed as a supervisor representing shareholders in June 2012.

Zhang Man Juan, aged 49, graduated from China Broadcast & Television University in finance and accounting. She has been engaged in work of finance and accounting for many years. She used to be a deputy chief of the finance department of Shanghai Huaihai Medical Factory. She is currently the Manager of the Finance Department of the Company. She was appointed as a supervisor representing employees in June 2005.

Guo Yi Cheng, aged 67, graduated from Economic Management College of China Central Party School. He holds a researcher's qualification of Shanghai Academy of Social Sciences. He used to be head of Teaching and Research Section of Shanghai Mechanical and Electrical Party School, deputy head of Economy Department of Shanghai Municipality Government Research Office, deputy general manager of Shanghai Pharmaceutical Co., Ltd., and the Director and Deputy General Manager of General Technology Group Pharmaceutical Holding Limited. He had been appointed as a supervisor between June 2005 and June 2006. He was re-appointed as an Independent supervisor in May 2008.

Xu Qing, aged 49, graduated from The Second Military Medical University and obtained a Ph.D degree. He did his postdoctoral research in H.Lee.Moffitt Tumor Center of University of South Florida as a visiting scholar. He used to serve as a deputy director, a deputy chief physician, and a deputy professor of the Tumor Internal Medicine Department of Chang Zheng Hospital of The Second Military Medical University. He is currently the deputy director of Oncology Department of Tongji University Medical School, deputy director of Tumor Institute of Tongji University Medical School, and director, deputy chief physician, and deputy professor of Tumor Internal Medicine Department of the Tenth People's Hospital affiliated to Tongji University. He's been engaged in the fundamental and clinical research on tumor for a long term. He has published over 20 articles on medical journals from domestic and abroad. He was appointed as an Independent supervisor in May 2008.

SENIOR MANAGEMENT

Li Jun, aged 45, is a deputy general manager of the Company. He graduated from Fudan University with a master's degree in biology. He has been responsible for several research projects of the State Natural Science Fund, and has published numerous articles. He is a certified pharmacist. He joined the Company in November 1996.

Yang Xiao Lin, aged 50, is a deputy general manager of the Company. He graduated from Chinese Academy of Social Sciences with an MBA degree. He has participated in and been in charge of several M&A projects for pharmaceutical companies. He has also been responsible for marketing and selling prescribed and OTC medicine in many sectors, and has obtained good results. He used to be a regional sales manager of GlaxoSmithKline, Marketing Director of Fosun Pharmaceutical Group, and General Manager of Zhejiang Kanglaite Pharmaceutical Co., Ltd. He joined the Company in January 2006.

Gan Yi Min, aged 51, is a deputy general manager of the Company. He obtained a bachelor's degree from Industrial Automation with Xian Technology University and a master's degree of Pharma Engineering from Beijing Chemical Engineering University. In addition, he graduated from Jiaotong University of Xi'an and Antwerp University (Belgium) with MBA and EMBA degree respectively. He used to be the general manager of Haini Pharmaceutical Co., Ltd. (Shanghai). He joined the Company in February 2010.

COMPANY SECRETARY

Xue Yan, aged 31, is the Chief Financial Officer, Company Secretary and an authorized representative of the company. She holds a bachelor degree in International Accounting from Shanghai University of Finance & Economics. She is a member of Hong Kong Institute of Certified Public Accountants (HKICPA), a fellow of the Association of Chartered Certified Accountants (FCCA) and a member of Chinese Institute of Certified Public Accountants (CICPA) and Certified Internal Auditor (CIA). She has extensive professional experience in accounting as well as experience in corporate compliance. She joined the Company in June 2010.

Independent Auditor's Report

pwc 羅兵咸永道

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

We have audited the consolidated financial statements of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 56 to 110, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Independent Auditor's Report (continued)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December 2012	2011
Turnover	4	**232,527**	133,890
Cost of sales	6	**(23,557)**	(23,034)
Gross profit		**208,970**	110,856
Other income	5	**48,223**	36,868
Research and development costs	6	**(45,312)**	(32,891)
Distribution and marketing costs	6	**(126,620)**	(54,596)
Administrative expenses	6	**(16,810)**	(17,371)
Other operating expenses	6	**(4,585)**	(377)
Operating profit		**63,866**	42,489
Finance costs	7	**(6,166)**	(4,862)
Profit before income tax		**57,700**	37,627
Income tax expense	10	**(5,264)**	(5,255)
Profit for the year		**52,436**	32,372
Other comprehensive income			
Available-for-sale investments	25	**10**	(10)
Total comprehensive income for the year		**52,446**	32,362
Profit attributable to:			
Shareholders of the Company		**53,159**	30,826
Non-controlling interests		**(723)**	1,546
		52,436	32,372
Total comprehensive income attributable to:			
Shareholders of the Company		**53,166**	30,819
Non-controlling interests		**(720)**	1,543
		52,446	32,362
Basic and diluted earnings per share for profit attributable to the shareholders of the Company (RMB)	14	**0.0749**	0.0434

The notes on pages 61 to 110 are an integral part of these financial statements.

	Notes	Year ended 31 December 2012	2011
Dividends	12	**–**	–

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

As at 31 December 2012

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

		Group		Company	
		As at 31 December		As at 31 December	
	Notes	2012	2011	2012	2011
Non-current assets					
Leasehold land payments	15	34,130	34,920	4,073	4,179
Property, plant and equipment	16	221,263	111,968	88,317	47,061
Technical know-how	17	1,645	77	125	51
Deferred costs	18	5,817	5,857	1,754	2,976
Investments in subsidiaries	19	–	–	79,113	72,213
Investment in an associate	20	–	–	–	–
Deferred income tax assets	21	4,364	2,235	4,141	2,235
Other non-current assets		4,796	–	4,796	–
		272,015	155,057	182,319	128,715
Current assets					
Inventories	22	6,943	18,723	6,546	16,915
Trade receivables	23	80,992	57,966	78,622	56,789
Other receivables, deposits and prepayments	24	10,718	15,461	9,307	14,985
Available-for-sale investments	25	–	11	–	–
Amount due from a related party	26	8,361	1,594	8,256	1,471
Amounts due from a subsidiary	27	–	–	11,131	5,785
Cash and cash equivalents	28	158,267	110,069	143,605	61,237
		265,281	203,824	257,467	157,182
Total assets		537,296	358,881	439,786	285,897
Non-current liabilities					
Borrowings	29	40,000	40,000	–	–
Loans from government authorities	30	–	10,000	–	–
Deferred revenue	31	14,072	19,515	7,333	15,803
		54,072	69,515	7,333	15,803

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

As at 31 December 2012
(All amounts are shown in RMB thousands unless otherwise stated)

		Group		Company	
		As at 31 December		As at 31 December	
	Notes	**2012**	2011	**2012**	2011
Current liabilities					
Trade payables	32	**43,827**	5,357	**43,543**	4,771
Other payables and accruals		**57,532**	28,974	**55,872**	27,270
Current income tax liabilities		**5,712**	6,436	**5,448**	6,436
Amount due to a shareholder	33	**–**	1,500	**–**	1,500
Amount due to a subsidiary	34	**–**	–	**8,348**	15,400
Borrowings	29	**76,498**	26,660	**73,500**	26,660
Loans from government authorities	30	**10,000**	1,650	**–**	1,650
Deferred revenue	31	**29,542**	17,722	**20,999**	15,070
		223,111	88,299	**207,710**	98,757
Total liabilities		**277,183**	157,814	**215,043**	114,560
Capital and reserves attributable to shareholders of the Company					
Share capital	35	**71,000**	71,000	**71,000**	71,000
Reserves	36	**152,228**	99,062	**153,743**	100,337
		223,228	170,062	**224,743**	171,337
Non-controlling interests		**36,885**	31,005	**–**	–
Total equity		**260,113**	201,067	**224,743**	171,337
Total equity and liabilities		**537,296**	358,881	**439,786**	285,897
Net current assets		**42,170**	115,525	**49,757**	58,425
Total assets less current liabilities		**314,185**	270,582	**232,076**	187,140

The notes on pages 61 to 110 are an integral part of these financial statements.

Wang Hai Bo
Director

Zhao Da Jun
Director

19 March 2013

Consolidated Cash Flow Statement

For the year ended 31 December 2012
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December 2012	2011
Operating activities			
Cash generated from operations	37	**123,565**	53,461
Interest paid		**(6,166)**	(4,862)
Interest received		**905**	990
Income tax paid		**(8,116)**	–
Net cash generated from operating activities		**110,188**	49,589
Investing activities			
Purchase of property, plant and equipment		**(114,605)**	(32,988)
Additions of deferred costs		**(1,182)**	(3,196)
Purchase of Technical know-how		**(89)**	–
Purchase of available-for-sales investments		**(4,757)**	(3,422)
Proceeds from disposal of property, plant and equipment		**36**	14
Proceeds from disposal of available-for-sale investments		**5,669**	4,437
Net cash used in from investing activities		**(114,928)**	(35,155)
Financing activities			
Capital contribution by non-controlling interests		**3,100**	–
Repayments of loans from government authorities		**–**	(31,000)
Proceeds from borrowings		**96,998**	60,000
Repayments of borrowings		**(47,160)**	(23,670)
Net cash generated from financing activities		**52,938**	5,330
Net increase in cash and cash equivalents		**48,198**	19,764
Cash and cash equivalents at beginning of the year		**110,069**	90,305
Cash and cash equivalents at end of the year	28	**158,267**	110,069

The notes on pages 61 to 110 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012
(All amounts are shown in RMB thousands unless otherwise stated)

	Attributable to shareholders of the Company				Non-controlling interests	Total equity
	Share capital (Note 35)	Capital accumulation reserve (Note 36)	Statutory common reserve fund (Note 36)	Accumulated losses (Note 36)		
At 1 January 2011	71,000	211,240	2,829	(145,826)	29,462	168,705
Profit for the year 2011	–	–	–	30,826	1,546	32,372
Other comprehensive income						
Available-for-sale investments (Note 25)	–	(7)	–	–	(3)	(10)
Total comprehensive income	–	(7)	–	30,826	1,543	32,362
At 31 December 2011	71,000	211,233	2,829	(115,000)	31,005	201,067
Profit/(loss) for the year 2012	**–**	**–**	**–**	**53,159**	**(723)**	**52,436**
Other comprehensive income						
Available-for-sale investments (Note 25)	**–**	**7**	**–**	**–**	**3**	**10**
Total comprehensive income	**–**	**7**	**–**	**53,159**	**(720)**	**52,446**
Transactions with shareholders						
Appropriation to statutory reserve	**–**	**–**	**3,590**	**(3,590)**	**–**	**–**
Capital contribution by non-controlling interests	**–**	**–**	**–**	**–**	**6,600**	**6,600**
Total Transactions with shareholders	**–**	**–**	**3,590**	**(3,590)**	**6,600**	**6,600**
At 31 December 2012	**71,000**	**211,240**	**6,419**	**(65,431)**	**36,885**	**260,113**

The notes on pages 61 to 110 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(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.

On 4 February 2013, the Company completed placing 142,000,000 H shares with a par value of RMB0.10 each at a price of HKD1.70 each share. And the paid-in capital of the Company was increased to RMB85,200,000 (Note42).

As at 31 December 2012, the Company had direct interests of 100%, 65%, 69.77% and 51% in four subsidiaries, Shanghai Morgan-Tan International Center for Life Sciences Co., Ltd. ("Morgan-Tan"), Shanghai Ba Dian Medicine Co., Ltd. ("Ba Dian"), Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou Pharmaceutical") and Shanghai Tracing Bio-technology Co., Ltd. ("Tracing") 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.

New and amended standards adopted by the Group

The following amended standards are mandatory for the first time for the financial year beginning on 1 January 2012.

IFRS 7 (Revised)	Financial instruments: Disclosures
IAS 12 (Revised)	Income tax

The adoption of the above amended standards did not have any significant impacts to the Group.

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

IFRS 7 (Revised)	Financial instruments: Disclosures
IFRS 9	Financial Instruments
IFRS 10	Consolidated financial statements
IFRS 12	Disclosures of interests in other entities
IFRS 13	Fair value measurement
IAS 1 (Revised)	Financial statement presentation
IAS 19 (Revised)	Employee benefits
IAS 27 (Revised)	Separate financial statements
IAS 28 (Revised)	Associates and joint ventures
IAS 32 (Revised)	Financial Instruments: Presentation

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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. Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. 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.

(c) Transaction with non-controlling interests

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

(d) Investments in associates

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(f) Current and deferred income tax

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

(a) Current income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

(g) Property, plant and equipment

Property, plant and equipment include plant and machinery, furniture, fixtures and computer equipment and motor vehicles and are stated at historical cost less depreciation and impairment (if any).

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

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

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

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

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

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

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

(h) Research and development

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects relating to the design and testing of the products for sales by the Group are recognised as deferred development costs when it is probable that the product will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit. The amortisation periods adopted do not exceed five years.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Research and development (continued)

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

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

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

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

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

(j) Leases

Leasehold land payments are up-front payments made to acquire long-term interests in the usage of land in the PRC. These payments are stated at cost and are amortised on a straight-line basis over the period of the lease.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). The cost of medical equipment held for sale comprises direct purchase costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses, and taking into account the related amortisation of deferred development costs charged during the year.

(l) Trade and other receivables

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

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, short-term deposits in bank and other financial institutions and other short-term highly liquid investments with maturities of three months or less from the time of purchase.

(n) Provisions

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

(o) Retirement benefit costs

Contributions to retirement schemes for employees in accordance with local rules and regulations are expensed as incurred. Once the contributions have been paid, the Group has no further payment obligations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Assets held for sale

The assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

(q) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified and included in 'Trade receivables', 'Other receivables, deposits and prepayment' and 'Cash and cash equivalents' in the balance sheet (Notes 2(l) and 2(m)).

(ii) Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

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

The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial assets (continued)

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as other income or expense.

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

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of investments in impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss-is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. Impairment testing of trade receivables is described in Note 2(l).

(r) Borrowings

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Borrowing costs

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

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

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

(t) Deferred revenue

Deferred revenue includes:

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

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

The recognition of deferred revenue refers to Notes 2(u) and 2(w).

(u) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as other liabilities and are credited to the statement of comprehensive income on a straight line basis over the expected lives of the related assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Technical know-how

Expenditure to acquire technical know-how is capitalised and amortised using the straight-line method over its estimated useful life, ranging from 5 years to 10 years. Where an indication of impairment exists, the carrying amount of the acquired technical know-how is assessed and written down immediately to its recoverable amount.

(w) Revenue recognition

(i) Sales of medical products are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed. The provisions of related ancillary services for the sales of medical products, if any, are recognised upon customer acceptance of the performance of services. Sales are shown net of sales taxes and discounts, and after eliminating sales within the Group.

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

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

(iii) Payments received from cooperation on innovative pharmaceuticals research and development are recognised as other income against the related research and development expenses which are intended to be compensated and over the term when the related expenses are incurred. Milestone payments in connection with research and development or commercialisation agreements are recognised when they are earned in accordance with the applicable performance requirements and contractual terms. Payments received that are related to future performance are deferred and recorded as revenues as they are earned over the specified future performance periods.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Revenue recognition (continued)

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

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

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

(x) Dividend distribution

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

(y) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

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

(i) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. If the useful lives for property, plant and equipment had been 10% longer/shorter with all other variables held constant, profit for the year would have been RMB966,000 higher/lower.

Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Critical accounting estimates and assumptions (continued)

(ii) Impairment of receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassess the provision on each of the balance sheet date. If the provision for impairment of trade and other receivables rate had been 10% higher/lower with all other variables held constant, profit for the year would have been RMB30,000 lower/RMB62,000 higher.

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

(i) Impairment of investments in subsidiaries and an associate

The Group follows the guidance of IAS36 to determine when investments in subsidiaries and an associate are impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(ii) Deferred income tax assets

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

(iii) Research and development

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

Management will write off or write down deferred development costs when there are adverse changes in technological innovations or profit projections. Management assessed that there are no adverse changes that will cause deferred development costs as at 31 December 2012 to be written off or written down.

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

4 TURNOVER

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

	2012	2011
Sales of medical products	225,880	129,723
Exclusive rights (Note (a))	5,000	4,167
Technology transfer revenue (Note (b))	1,647	–
	232,527	133,890

(a) In March 2011, the exclusive distribution rights of Doxorubicin Liposome Injection products were granted to a pharmaceutical distribution company for a period from the contract effective day to 28 February 2015 and a potential extension of another four years, at a total consideration of RMB20,000,000, of which an amount of RMB5,000,000 (2011: RMB4,167,000) was recognised as revenue in 2012 (Note 31).

(b) In 2004, the Company signed a technology transfer contract with Yongxin Bio-pharmaceutical Co., Ltd. According to the contract, Yongxin Bio-pharmaceutical Co., Ltd is required to pay RMB1,500,000 when the second period clinical trial successes. Such payment of RMB1,500,000 was received and recognised as technology transfer revenue in 2012.

At 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, which was completed in 2007. In addition, 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 5 years. The royalty payment of RMB147,000 (2011:nil) was received and recognised as revenue in 2012.

5 OTHER INCOME

	2012	2011
Cooperation agreement with SPHCL (Note (a))	28,814	23,420
Amortisation of government grants (Note 31)	17,589	11,565
Gain on disposal of available-for-sale investments	891	893
Interest income	905	990
Others	24	–
	48,223	36,868

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

5 OTHER INCOME (continued)

(a) On 23 February 2011, the Company and Shanghai Pharmaceuticals Holding Co., Ltd. ("SPHCL"), a shareholder of the Company, signed an innovative drug research and development strategic cooperation agreement (the "Agreement") in relation to four of the existing drug research projects undertaken by the Group. According to the Agreement, SPHCL will bear 80% of the ongoing research and development ("R&D) expenses of these projects incurred by the Group from 1 January 2011, and the Group and SPHCL will share equally the future benefits generated from the commercialization of these projects. In addition, SPHCL also agreed to reimburse 80% of the R&D expenses incurred by the Group on these research projects prior to 1 January 2011 (the "Pre-2011 Costs") but the payments of the Pre-2011 Costs are subject to the completion of certain milestones between 2011 and 2014 as set out in the Agreement.

In 2012, the Company received total payments of RMB28,525,000 (2011: RMB35,065,000) from SHPCL under the Agreement, RMB28,814,000 (2011: RMB23,420,000) was recognized as other income and the balance of deferred revenue as at 31 December 2012 was RMB15,940,000 (2011: RMB11,645,000) (Note 31).

6 EXPENSES BY NATURE

	2012	2011
Amortisation of leasehold land payments (Note 15)	790	790
Less: amount capitalised in construction in progress	(684)	(663)
	106	127
Amortisation of deferred costs (included in 'Cost of sales') (Note 18)	1,222	1,470
Amortisation of technical know-how (included in 'Administrative expenses') (Note 17)	21	18
Auditors' remuneration	1,300	1,210
Provision for impairment of receivables (Note 23)	623	209
Inventories write-down (Note 22)	–	2,367
Changes in inventories of finished goods and work in progress	954	(1,629)
Raw materials and consumables used	10,818	15,491
Depreciation of property, plant and equipment (Note 16)	9,659	5,209
Losses on disposal of property, plant and equipment	4,504	51
Operating lease rentals in respect of land and buildings	1,128	417
Research and development costs, excluding employee benefit expenses	32,356	22,138
Employee benefit expenses (Note 8)	49,156	38,493
Marketing and sales promotion	104,956	42,319
Others	81	379
Total of Cost of sales, research and development costs, distribution and marketing costs, administrative expenses, and other operating expenses	216,884	128,269

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

7 FINANCE COSTS

	2012	2011
Interest expense:		
– bank borrowings wholly repayable within 5 years	6,136	3,671
– loans from government	30	1,191
	6,166	4,862

8 EMPLOYEE BENEFIT EXPENSES

	2012	2011
Wages and salaries	39,075	29,708
Housing subsidies	2,311	2,148
Social security costs	3,243	2,422
Retirement benefit costs (Note 9)	4,527	4,215
Employee benefit expenses including directors' and supervisors' emoluments	49,156	38,493
The number of employees at the end of the year	397	316

9 RETIREMENT BENEFIT COSTS

The employees of the Group participate in a retirement benefit plan organised by the municipal government whereby the Group is required to make monthly contributions to the plan at a rate of 22% of the employees' total wages and salaries for the year, up to a maximum fixed monetary amount, as stipulated by the municipal government. The Group has no obligation for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. Expenses incurred by the Group in connection with the retirement benefit plan were RMB4,527,000 and RMB4,215,000 for the years ended 31 December 2012 and 31 December 2011, respectively.

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

10 INCOME TAX EXPENSE

	2012	2011
Current income tax	**7,393**	6,285
Deferred tax credit (Note 21)	**(2,129)**	(1,030)
	5,264	5,255

Effective from 1 January 2008, the Company and its subsidiaries 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. Following the new CIT Law and 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 effective tax rate of the Company is 12.5% in 2012 (2011: 12.5%). The effective tax rates of the subsidiaries are 25% in 2012 (2011: 25%).

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

	2012	2011
Profit before income tax	**57,700**	37,627
Tax calculated at a tax rate of 25%	**14,425**	9,407
Effect of unrecognised tax losses of the Group	**628**	131
Effect of tax exemption	**(7,329)**	(4,130)
Additional deduction of R&D expenditures	**(281)**	(100)
Utilisation of previously unrecognised deductible temporary differences	**(2,251)**	–
Utilisation of previously unrecognised tax losses	**(248)**	(474)
Expenses not deductible for tax purpose	**320**	421
Tax charge	**5,264**	5,255

11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB53,406,000 (2011: RMB27,782,000).

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

12 DIVIDENDS

At the meeting on 19 March 2013, the Board of Directors recommended not to distribute any dividends in respect of the year ended 31 December 2012.

At the meeting on 8 March 2012, the Board of Directors recommended not to distribute any dividends in respect of the year ended 31 December 2011.

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND HIGHEST PAID

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

	2012	2011
Basic salaries and allowances	2,123	2,002
Bonus	1,200	300
Retirement benefit and social security costs	193	181
Fees	150	130
	3,666	2,613

RMB300,000 fees were paid and payable to the independent non-executive directors for the year (2011: RMB240,000).

The emoluments in respect of executive directors, supervisors and independent non-executive directors are as follows:

	2012	2011
Executive director, Wang Hai Bo	1,517	1,033
Executive director, Su Yong	1,014	738
Executive director, Zhao Da Jun	985	712
Supervisor, Guo Yi Cheng	75	65
Supervisor, Xu Qing	75	65
Independent non-executive director, Cheng Lin	100	80
Independent non-executive director, Pan Fei	100	80
Independent non-executive director, Weng De Zhang	100	80
	3,966	2,853

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

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

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

	2012	2011
Directors	3	2
Non-directors	2	3
	5	5

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

The emoluments fell within the following bands.

	2012	2011
HKD500,000 – HKD1,000,000	–	4
HKD1,000,000 – HKD1,500,000	4	1
HKD1,500,000 – HKD2,000,000	1	–
	5	5

(iii) Details of the emoluments in respect of the non-directors as mentioned above are as follows:

	2012	2011
Basic salaries and allowances	1,180	1,707
Bonus	600	300
Retirement benefit and social security costs	148	207
	1,928	2,214

(iv) During the years ended 31 December 2012 and 2011, no directors or any of the five highest paid individuals of the Company waived any emoluments and no emoluments have been paid or are payable by the Group to the directors or any of the five highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

14 EARNINGS PER SHARE

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

	2012	2011
Earnings attributable to shareholders of the Company (RMBthousands)	**53,159**	30,826
Weighted average number of ordinary shares in issue (thousands)	**710,000**	710,000
Basic earnings per share (RMB)	**0.0749**	0.0434

There is no difference between the basic and diluted earnings per share for the years ended 31 December 2012 and 2011 as there were no dilutive potential ordinary shares during the years then ended.

15 LEASEHOLD LAND PAYMENTS – GROUP AND COMPANY

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

	Group		**Company**	
	2012	2011	**2012**	2011
Net book value at beginning of the year	**34,920**	35,710	**4,179**	4,285
Amortisation	**(790)**	(790)	**(106)**	(106)
Net book value at end of the year	**34,130**	34,920	**4,073**	4,179

The original lease terms of the land use rights of the Group held in the PRC are from 47 to 50, and the remaining lease period are from 39 to 43 years.

As at 31 December 2012, bank borrowings of Taizhou Pharmaceutical with amount of RMB15,000,000 (2011: RMB15,000,000) were secured on leasehold land of Taizhou Pharmaceutical with a net book value of RMB30,056,168 (2011: RMB30,740,559) (Notes 29).

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

16 PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY

(i) The property, plant and equipment of the Group for the years ended 31 December 2012 and 31 December 2011 are as follows:

	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Construction in progress	Total
Cost					
At 1 January 2011	78,231	3,006	2,553	36,106	119,896
Additions	3,249	299	–	30,103	33,651
Disposals	(473)	(272)	–	–	(745)
At 31 December 2011	81,007	3,033	2,553	66,209	152,802
Additions	**26,426**	**2,899**	**–**	**81,168**	**110,493**
Capital contribution by non-controlling interests	**2,000**	**–**	**–**	**–**	**2,000**
Transfer from inventory	**11,001**	**–**	**–**	**–**	**11,001**
Transfer from CIP	**17,486**	**–**	**–**	**(17,486)**	**–**
Disposals	**(9,791)**	**(697)**	**–**	**–**	**(10,488)**
At 31 December 2012	**128,129**	**5,235**	**2,553**	**129,891**	**265,808**
Accumulated depreciation					
At 1 January 2011	33,121	2,221	963	–	36,305
Charge for the year	4,634	307	268	–	5,209
Disposals	(461)	(219)	–	–	(680)
At 31 December 2011	37,294	2,309	1,231	–	40,834
Charge for the year	**8,863**	**528**	**268**	**–**	**9,659**
Disposals	**(5,478)**	**(470)**	**–**	**–**	**(5,948)**
At 31 December 2012	**40,679**	**2,367**	**1,499**	**–**	**44,545**
Net book value					
At 31 December 2012	**87,450**	**2,868**	**1,054**	**129,891**	**221,263**
At 31 December 2011	43,713	724	1,322	66,209	111,968

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

16 PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY (continued)

(ii) The property, plant and equipment of the Company for the years ended 31 December 2012 and 31 December 2011 are as follows:

	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Construction in progress	Total
Cost					
At 1 January 2011	73,654	2,715	2,217	–	78,586
Additions	3,002	280	–	4,205	7,487
Disposals	(100)	(171)	–	–	(271)
At 31 December 2011	76,556	2,824	2,217	4,205	85,802
Additions	**26,065**	**2,652**	**–**	**18,997**	**47,714**
Transfer from inventory	**9,578**	**–**	**–**	**–**	**9,578**
Transfer from CIP	**17,486**	**–**	**–**	**(17,486)**	**–**
Disposals	**(8,422)**	**(687)**	**–**	**–**	**(9,109)**
Capital contribution to a subsidiary	**(3,933)**	**–**	**–**	**–**	**(3,933)**
At 31 December 2012	**117,330**	**4,789**	**2,217**	**5,716**	**130,052**
Accumulated depreciation					
At 1 January 2011	31,272	2,039	827	–	34,138
Charge for the year	4,347	280	207	–	4,834
Disposals	(86)	(145)	–	–	(231)
At 31 December 2011	35,533	2,174	1,034	–	38,741
Charge for the year	**8,231**	**494**	**207**	**–**	**8,932**
Disposals	**(4,114)**	**(462)**	**–**	**–**	**(4,576)**
Capital contribution to a subsidiary	**(1,362)**	**–**	**–**	**–**	**(1,362)**
At 31 December 2012	**38,288**	**2,206**	**1,241**	**–**	**41,735**
Net book value					
At 31 December 2012	**79,042**	**2,583**	**976**	**5,716**	**88,317**
At 31 December 2011	41,023	650	1,183	4,205	47,061

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

16 PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY (continued)

(iii) As at 31 December 2012, bank borrowings of the Company with amount of RMB38,500,000 (2011: RMB6,600,000) were pledged by the plant of the Company with a net book value of RMB32,627,205 (2011: RMB18, 955,761 of machinery) (Note 29).

17 TECHNICAL KNOW-HOW – GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
Cost				
At beginning of the year	**3,034**	3,034	**2,887**	2,887
Additions	**89**	–	**89**	–
Capital contribution by non-controlling interests	**1,500**	–	**–**	–
At end of the year	**4,623**	3,034	**2,976**	2,887
Accumulated amortisation				
At beginning of the year	**2,957**	2,939	**2,836**	2,824
Charge for the year	**21**	18	**15**	12
At end of the year	**2,978**	2,957	**2,851**	2,836
Net book value				
At end of the year	**1,645**	77	**125**	51

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

18 DEFERRED COSTS – GROUP AND COMPANY

(i) The deferred costs of the Group for the year ended 31 December 2012 and 31 December 2011 are as follows:

	Deferred development costs	Deferred costs of exclusive rights	Total
Cost			
At 1 January 2011	6,286	1,000	7,286
Capitalization of costs	2,881	315	3,196
At 31 December 2011	9,167	1,315	10,482
Capitalization of costs	**1,182**	**–**	**1,182**
At 31 December 2012	**10,349**	**1,315**	**11,664**
Accumulated amortisation			
At 1 January 2011	2,861	294	3,155
Charge for the year	1,257	213	1,470
At 31 December 2011	4,118	507	4,625
Charge for the year	**967**	**255**	**1,222**
At 31 December 2012	**5,085**	**762**	**5,847**
Net book value			
At 31 December 2012	**5,264**	**553**	**5,817**
At 31 December 2011	5,049	808	5,857

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

18 DEFERRED COSTS – GROUP AND COMPANY (continued)

(ii) The deferred costs of the Company for the year ended 31 December 2012 and 31 December 2011 are as follows:

	Deferred development costs	Deferred costs of exclusive rights	Total
Cost			
At 1 January 2011	6,286	1,000	7,286
Capitalization of costs	–	315	315
At 31 December 2011 and 31 December 2012	6,286	1,315	7,601
Accumulated amortisation			
At 1 January 2011	2,861	294	3,155
Charge for the year	1,257	213	1,470
At 31 December 2011	4,118	507	4,625
Charge for the year	**967**	**255**	**1,222**
At 31 December 2012	**5,085**	**762**	**5,847**
Net book value			
At 31 December 2012	**1,201**	**553**	**1,754**
At 31 December 2011	2,168	808	2,976

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

19 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2012	2011
Unlisted equity investments, at cost		
At beginning and end of the year	76,098	76,098
Additions (Note (a))	6,900	–
At end of the year	82,998	76,098
Impairment charge		
At 31 December 2012 and 2011	(3,885)	(3,885)
Net book value		
At end of the year	79,113	72,213

(a) On 5 November 2012, the Company established Tracing with Shanghai Uni Bio-technology Co. Ltd. and three individuals, and the shareholding proportion was to be 56%, 38.99%, 1.67%, 1.67% and 1.67%, respectively. The registered capital of Tracing is RMB15,000,000. As at 31 December 2012, the shareholders had paid injected capital of RMB13,500,000, including RMB6,900,000 from the Company representing 51% of the total paid-in capital. And a further payment of RMB1,500,000 is required from the Company in 2013.

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

19 INVESTMENTS IN SUBSIDIARIES – COMPANY (continued)

As at 31 December 2012, the Company held the following investments in subsidiaries which are all limited liability companies:

Name	Country and date of establishment	Registered capital	Attributable equity interest %	Principal activities and place of operation
Shanghai Morgan-Tan International Center for Life Sciences Co., Ltd. (上海摩根談國際生命科學中心有限公司)	PRC 31 August 1998	RMB8,000,000	100	Research and development ("R&D") of specialised bio-pharmaceutical projects and provision of related services in the PRC
Shanghai Ba Dian Medicine Co., Ltd. (上海靶點藥物有限公司)	PRC 4 June 2003	RMB15,000,000	65	Development of biological and medical technology, the provision of related R&D services and the sale of intermediary products in the PRC
Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. (泰州復旦張江藥業有限公司)	PRC 13 March 2007	RMB86,000,000	69.77	Research and development ("R&D") of pharmaceutical projects and medical instruments and provision of related services in the PRC
Shanghai Tracing Bio-technology Co., Ltd. (上海溯源生物技術有限公司)	PRC 5 November 2012	RMB15,000,000	56	Research and development of medical diagnostic products, provision of related technical service and sales of general merchandise in the PRC

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

20 INVESTMENT IN AN ASSOCIATE – GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
Unlisted equity investments, at cost				
At beginning and end of the year	**7,200**	7,200	**7,200**	7,200
Share of results				
At beginning and end of the year	**(6,867)**	(6,867)	**–**	–
Impairment charge				
At beginning and end of the year	**(333)**	(333)	**(7,200)**	(7,200)
Net book value				
At end of the year	**–**	–	**–**	–

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

Name	Country and date of establishment	Registered capital	Attributable equity interest %	Principal activities and place of operation
Shanghai Lead Discovery Limited Company ("Lead Discovery")	PRC 27 November 2002	RMB20,400,000	35	High throughput screening of new drugs, R&D of "me-too" and natural drug technologies in the PRC

The assets, liabilities, revenues and comprehensive income of the associate are as below:

	Assets	Liabilities	Revenues	Comprehensive income
2012	**2,024**	**3,694**	**–**	**(257)**
2011	2,143	3,557	–	(1,171)

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

21 DEFERRED INCOME TAX ASSETS – GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
Deferred tax assets:				
– Deferred tax asset to be recovered after more than one year	**174**	763	**155**	763
– Deferred tax asset to be recovered within one year	**4,370**	1,773	**4,166**	1,773
	4,544	2,536	**4,321**	2,536
Deferred tax liabilities:				
– Deferred tax liabilities to be recovered after more than one year	**(66)**	(121)	**(66)**	(121)
– Deferred tax liabilities to be recovered within one year	**(114)**	(180)	**(114)**	(180)
	(180)	(301)	**(180)**	(301)
Deferred tax assets (net)	**4,364**	2,235	**4,141**	2,235

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

	Group		Company	
	2012	2011	**2012**	2011
At beginning of the year	**2,235**	1,205	**2,235**	1,205
Credited to income tax expense (Note 10)	**2,129**	1,030	**1,906**	1,030
At end of the year	**4,364**	2,235	**4,141**	2,235

A potential deferred income tax asset, which represents mainly temporary difference arising from tax losses carried forward and unrealised profits on intra-group transactions, has not been recognised in the consolidated financial statements as, in the opinion of the Directors, it is uncertain that such asset will be realised in the foreseeable future. The tax losses and unrealised profits not recognised by the Group amounted to RMB29,279,000 and RMB27,757,000 as at 31 December 2012 and 31 December 2011 respectively. The tax losses will expire within five years from the respective balance sheet date and it is expected that the Group will not be able to utilise them to offset against future taxable profits before they expire. It is uncertain whether or not the unrealised profits on intra-group transactions will become realised, hence it is expected that the Group will not be able to utilise the respective tax deduction in the foreseeable future.

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

21 DEFERRED INCOME TAX ASSETS – GROUP AND COMPANY (continued)

The movement in deferred income tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the year is as follows:

Deferred income tax liabilities (on gross basis)

	Deferred development costs
At 1 January 2011	(451)
Credited to income tax expense	150
At 31 December 2011	(301)
Credited to income tax expense	**121**
At 31 December 2012	**(180)**

Deferred income tax assets (on gross basis)

	Accruals	Provisions	Tax losses	Total
At 1 January 2011	–	821	685	1,506
Credited/(charged) to income tax expense	1,773	(58)	(685)	1,030
At 31 December 2011	1,773	763	–	2,536
Credited/(charged) to income tax expense	**2,597**	**(589)**	**–**	**2,008**
At 31 December 2012	**4,370**	**174**	**–**	**4,544**

22 INVENTORIES – GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
Raw materials	**2,208**	4,132	**2,199**	4,091
Production supplies and consumables	**862**	550	**862**	550
Work in progress	**1,854**	1,410	**1,772**	1,410
Finished goods	**2,019**	1,509	**1,713**	1,280
Medical equipment held for sale	**–**	11,122	**–**	9,584
	6,943	18,723	**6,546**	16,915

During the year, no inventory written down was made to the cost (2011: RMB2,367,000).

The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB22,335,000 (2011: RMB21,564,000).

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

23 TRADE RECEIVABLES – GROUP AND COMPANY

	Group		Company	
	2012	2011	2012	2011
Accounts receivables (Note (a))	58,773	51,331	56,423	50,154
Notes receivable (Note (b))	22,219	6,635	22,199	6,635
	80,992	57,966	78,622	56,789

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

	Group		Company	
	2012	2011	2012	2011
Current to 30 days	55,194	35,668	53,466	34,848
31 days to 60 days	2,068	7,169	1,752	7,066
61 days to 90 days	340	7,117	126	6,999
Over 90 days but less than one year	1,837	1,688	1,699	1,546
Over one year	346	544	318	502
	59,785	52,186	57,361	50,961
Less: provision for impairment	(1,012)	(855)	(938)	(807)
	58,773	51,331	56,423	50,154

Customers are generally granted credit term of 90 days.

As at 31 December 2012, trade receivables of amounted to RMB59,785,000 (2011: RMB57,361,000) were impaired and provided for. The amount of provision was RMB1,012,000 (2011: RMB938,000). As at 31 December 2012 and as at 31 December 2011, the accounts receivables aging over one year were fully impaired.

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

	Group		Company	
	2012	2011	2012	2011
At beginning of the year	855	646	807	646
Provision for impairment of receivables	623	209	597	161
Receivables written off during the year as uncollectible	(466)	–	(466)	–
At end of the year	1,012	855	938	807

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 with no interests and guarantee are all bank acceptance notes with maturities less than six months and have been fully settled after the year end.

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

24 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
Prepayments	**4,152**	11,871	**3,913**	11,871
Borrowings to employee	**3,263**	2,441	**2,693**	2,086
Deposits	**2,682**	117	**2,679**	93
Others	**621**	1,032	**22**	935
	10,718	15,461	**9,307**	14,985

25 AVAILABLE-FOR-SALE INVESTMENTS – GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
At beginning of the year	**11**	143	**–**	65
Additions	**4,757**	3,422	**3,281**	1,932
Fair value losses transfer to equity	**–**	(10)	**–**	–
Fair value losses transfer from equity for disposals	**10**	–	**–**	–
Disposals	**(4,778)**	(3,544)	**(3,281)**	(1,997)
At end of the year	**–**	11	**–**	–
Listed equity investments, at fair value	**–**	11	**–**	–

26 AMOUNT DUE FROM RELATED PARTIES – GROUP AND COMPANY

The balance represents a trade balance due from SHPCL and Shanghai Pharmaceutical Distribution Co., Ltd. ("SPDCL"), a subsidiary of SHPCL, and is unsecured, interest free and repayable.

27 AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

The balances represent amounts due from Morgan Tan, Taizhou Pharmaceutical and Badian, subsidiaries of the Company and are unsecured, interest free and repayable on demand.

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

28 CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
Cash and bank balances	**150,995**	102,931	**136,859**	54,577
Deposits in other financial institutions (Note (a))	**7,272**	7,138	**6,746**	6,660
	158,267	110,069	**143,605**	61,237
Maximum exposure to credit risk	**158,267**	110,069	**143,605**	61,237
Cash and bank balances denominated in				
– RMB	**158,267**	110,069	**143,605**	61,237

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

The effective interest rate on cash placed with banks and deposits in other financial institutions is 0.40%-0.50% (2011: 0.50%-1.49%) per annum.

29 BORROWINGS – GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
Non-current				
Long-term bank borrowings, secured (note (a))	**15,000**	46,660	**–**	6,660
Long-term bank borrowings, guaranteed (note (a))	**25,000**	–	**–**	–
Less: current portion	**–**	(6,660)	**–**	(6,660)
	40,000	40,000	**–**	–
Current				
Short-term bank borrowings, secured	**–**	20,000	**–**	20,000
Short-term bank mortgage borrowings (note(b))	**38,500**	–	**38,500**	–
Short-term bank credit borrowings (note(c))	**37,998**	–	**35,000**	–
Current portion of long-term bank borrowings, secured	**–**	6,660	**–**	6,660
	76,498	26,660	**73,500**	26,660

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

29 BORROWINGS – GROUP AND COMPANY (continued)

(a) The long-term bank borrowings of RMB40,000,000 are taken by Taizhou Pharmaceutical and bear an interest rate of 6.40%. Among the long-term bank borrowings, RMB15,000,000 is secured by the leasehold land of Taizhou Pharmaceutical (note 15), and would be repaid on 21 March 2014; another RMB25,000,000 is guaranteed by the Company, and would be repaid on 20 March 2015.

(b) As at 31 December 2012, short-term bank mortgage borrowings of RMB38,500,000 is secured by the plant of the Company (note 16). Borrowing of RMB20,000000 will be due for repayment on 25 April 2013 and bears an interest rate of 5.88% annually. Another borrowing of RMB18,500,000 will be due for repayment on 13 March 2013 and bears an interest rate of 5.88% annually.

(c) As at 31 December 2012, short-term credit borrowings amounted to RMB37,998,000. Among the Company's short-term loans of RMB35,000,000, RMB20,000,000 will be due for repayment on 22 May 2013, and bears an interest rate of 6.60% annually; another borrowing of RMB15,000,000 will be due for repayment on 15 November 2013, and bears an interest rate of 6.60% annually. The rest RMB2,998,000 of short-term bank credit borrowings of the Group is taken by Morgen-Tan, among which RMB2,570,000 will be due for repayment on 29 May 2013 and bears an interest rate of 6.16% annually, and RMB428,000 was due for repayment on 2 January 2013, and born an interest rate of 6.44% annually.

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

	Carrying amount		Fair value	
	2012	2011	**2012**	2011
Long-term bank borrowings	**40,000**	46,660	**40,000**	44,635

The fair values of short-term borrowings equal their carrying amount, as the impact of discounting is not significant.

Fair value is based on cash flows discounted using a rate of 6.40% based on the market rate published by People's Bank of China as at 31 December 2012 (2011: 6.90%).

The exposure of the Group's borrowings to interest-rate changes and the contractual reprising dates are as follows:

	2012	2011
Within one year	**40,000**	40,000

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

30 LOANS FROM GOVERNMENT AUTHORITIES

The loans from government authorities are repayable as follows:

	Group		Company	
	2012	2011	**2012**	2011
Current	**10,000**	1,650	**–**	1,650
Non-current	**–**	10,000	**–**	–
	10,000	11,650	**–**	1,650

As at 22 November 2010, Taizhou Pharmaceutical entered into an entrusted loan contract with Jiangsu Science and Technology Department. Pursuant to the contract, loan of RMB10,000,000 was granted to Taizhou Pharmaceutical as government assistance, which is due for repayment on 10 December 2013. The interest rate is fixed at 0.30% annually, and the loan was unsecured.

31 DEFERRED REVENUE – GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
Government grants	**16,841**	9,759	**8,980**	3,395
Exclusive rights	**10,833**	15,833	**10,833**	15,833
Cooperation Agreement with SPHCL	**15,940**	11,645	**8,519**	11,645
	43,614	37,237	**28,332**	30,873
Less: amount to be realised within one year	**(29,542)**	(17,722)	**(20,999)**	(15,070)
	14,072	19,515	**7,333**	15,803

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

31 DEFERRED REVENUE – GROUP AND COMPANY (continued)

(i) The deferred revenue of the Group for the years ended 31 December 2012 and 31 December 2011 are as follows:

	Government grants (Note 5)	Exclusive Rights (Note 4)	Cooperation Agreement with SPHCL (Note 5)	Total
At 1 January 2011	13,208	14,118	–	27,326
Termination of the previous exclusive distribution rights	–	(14,118)	–	(14,118)
Additions	8,116	20,000	35,065	63,181
Transfer to income	(11,565)	(4,167)	(23,420)	(39,152)
At 31 December 2011	9,759	15,833	11,645	37,237
Additions	**24,671**	**–**	**33,109**	**57,780**
Transfer to income	**(17,589)**	**(5,000)**	**(28,814)**	**(51,403)**
At 31 December 2012	**16,841**	**10,833**	**15,940**	**43,614**

(ii) The deferred revenue of the Company for the years ended 31 December 2012 and 31 December 2011 are as follows:

	Government grants	Exclusive Rights	Cooperation Agreement with SPHCL	Total
At 1 January 2011	6,037	14,118	–	20,155
Termination of the previous exclusive distribution rights	–	(14,118)	–	(14,118)
Additions	3,772	20,000	35,065	58,837
Transfer to income	(6,414)	(4,167)	(23,420)	(34,001)
At 31 December 2011	3,395	15,833	11,645	30,873
Additions	**18,503**	**–**	**11,760**	**30,263**
Transfer to income	**(12,918)**	**(5,000)**	**(14,886)**	**(32,804)**
At 31 December 2012	**8,980**	**10,833**	**8,519**	**28,332**

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

32 TRADE PAYABLES – GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
Accounts payables (Note (a))	**34,742**	5,357	**34,458**	4,771
Notes payables (Note (b))	**9,085**	–	**9,085**	–
	43,827	5,357	**43,543**	4,771

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

	Group		Company	
	2012	2011	**2012**	2011
Current to 30 days	**33,522**	3,985	**33,239**	3,399
31 days to 60 days	**730**	970	**730**	970
61 days to 90 days	**6**	35	**5**	35
Over 90 days but less than one year	**267**	214	**267**	214
Over one year	**217**	153	**217**	153
	34,742	5,357	**34,458**	4,771

Trade payables are unsecured and interest-free.

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

33 AMOUNT DUE TO A SHAREHOLDER – GROUP AND COMPANY

As at 31 December 2011, The balance represents an unpaid balance of 30% rebate to SPHCL arising from a transfer of technology, which was funded by SPHCL, to a third party. The balance is unsecured, interest free and repayable on demand.

34 AMOUNT DUE TO A SUBSIDIARY – COMPANY

As at 31 December 2011, The balance represents an amount due to Taizhou Pharmaceutical, a subsidiary of the Company and is unsecured, interest free and repayable on demand.

35 SHARE CAPITAL

	Number of shares (thousands)	Share capital
At 31 December 2012 and 31 December 2011	710,000	71,000

All authorised shares are issued and fully paid.

As at 23 June 2002, a share option scheme (the "Scheme") was conditionally approved by the shareholders of the Company in a general meeting. Full-time employees including any executive director of the Company or its subsidiaries can be invited to take up the options to subscribe for H shares of the Company, subject to satisfaction of certain conditions. The maximum number of H shares which may be issued upon exercise of all outstanding options offered to be granted or granted and yet to be exercised under the Scheme and any other scheme of the Group must not, in aggregate, exceed 20% of the H shares of the Company in issue from time to time. The subscription price will be determined by the Board of Directors, and will be no less than the highest of (i) the closing price of the H shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a business day; (ii) the average closing prices of the H shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of a H share. The Scheme will remain valid for a period of 10 years since the date on which the Scheme becomes unconditional. A consideration of RMB1.00 is payable on acceptance of the option offer. The share options granted under the Scheme may be exercised during a period determined by the Board of Directors but no more than 10 years from the date of grant of the option. As at 31 December 2012, no option shares have been granted and the Scheme has been expired.

On 29 June 2012, the Company adopted a Restricted Share Scheme to issue no more than 71,000,000 domestic shares as restricted stock under the scheme. Pursuant to the scheme, the participants mainly include Directors, senior management, mid-level management and key research staff of the Group who contribute to success of the Company's strategy and other key employees who, in the opinion of the Board or the remuneration committee of the Company, contribute directly to the overall business performance and sustainable development of the Group. As at 31 December 2012, the Company has not completed the first grant to the scheme participants.

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

36 RESERVES – GROUP AND COMPANY

(i) The reserves of the Group attributable to shareholders of the Company for the years ended 31 December 2012 and 31 December 2011 are as follows:

	Capital accumulation reserve (Note a)	Statutory common reserve fund (Note b)	Accumulated losses (Note c)	Total
At 1 January 2011	211,240	2,829	(145,826)	68,243
Profit for the year 2011	–	–	30,826	30,826
Fair value change on available-for -sale investments	(7)	–	–	(7)
At 31 December 2011	211,233	2,829	(115,000)	99,062
Profit for the year 2012	**–**	**–**	**53,159**	**53,159**
Appropriation to statutory reserve	**–**	**3,590**	**(3,590)**	**–**
Fair value change on available-for -sale investments	**7**	**–**	**–**	**7**
At 31 December 2012	**211,240**	**6,419**	**(65,431)**	**152,228**

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

36 RESERVES – GROUP AND COMPANY (continued)

(ii) The reserves of the Company for the years ended 31 December 2012 and 31 December 2011 are as follows:

	Capital accumulation reserve (Note a)	Statutory common reserve fund (Note b)	Accumulated losses/ Retained earnings (Note c)	Total
At 1 January 2011	115,014	2,829	(45,288)	72,555
Profit for the year 2011	–	–	27,782	27,782
At 31 December 2011	115,014	2,829	(17,506)	100,337
Profit for the year 2012	**–**	**–**	**53,406**	**53,406**
Appropriation to statutory reserve	**–**	**3,590**	**(3,590)**	**–**
At 31 December 2012	**115,014**	**6,419**	**32,310**	**153,743**

(a) Capital accumulation reserve includes share premium arising from the issue of shares at a price in excess of their par value, changes in the fair value of available-for-sale investment and the effect for transactions with non-controlling interests on changes in equity attributable to the shareholders of the Company. Expenses related to the issue of shares are accounted for as a deduction of the capital accumulation reserve.

(b) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders. The statutory common reserve fund shall only be used to make good previous years' losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution of shareholders' general meeting, the Company may 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, the amount of distributable reserve was RMB32,310,000 as at 31 December 2012 (2011: nil).

For the year ended 31 December 2012
(All amounts are shown in RMB thousands unless otherwise stated)

37 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(i) Reconciliation of profit before income tax to cash generated from operations

	2012	2011
Profit before income tax	57,700	37,627
Adjustments for:		
Amortisation of leasehold land payments (Note 6)	106	127
Amortisation of deferred costs (Note 18)	1,222	1,470
Amortisation of technical know-how (Note 17)	21	18
Provision for impairment of receivables (Note 23)	623	209
Inventories write-down (Note 22)	–	2,367
Depreciation of property, plant and equipment (Note 16)	9,659	5,209
Realized gains on disposal of available-for-sale investments (Note 5)	(891)	(893)
Losses on disposal of property, plant and Equipment (Note 6)	4,504	51
Finance costs (Note 7)	6,166	4,862
Interest income (Note 5)	(905)	(990)
Changes in working capital:		
– trade and other receivables and amount due from a related party	(25,671)	(1,341)
– inventories	779	(5,355)
– trade and other payables and amount due to a shareholder	63,875	189
– deferred revenue	6,377	9,911
Cash generated from operations	123,565	53,461

(ii) Significant financing activities that do not involve cash receipts and payments

	2012	2011
Property, plant and equipment injected by non-controlling interests	2,000	–
Technical know-how injected by non-controlling interests	1,500	–
	3,500	–

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

38 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

(i) Transactions

	2012	2011
With SPDCL:		
Sales of medical products	12,687	7,764
With SPHCL:		
Cash received under the Cooperation Agreement	28,525	35,065
With Shanghai Qidu Technology Development Co., Ltd:		
Advance received for compensation	8,450	–
Advance payment for acquisition of a property	4,000	–

(ii) The related party balances as at 31 December 2012 and 31 December 2011 are disclosed in Notes 26, 31 and 33.

(iii) Key management compensation:

	2012	2011
Basic salary and allowances	4,235	4,486
Bonus	2,300	754
Retirement benefit and social security costs	452	517
	6,987	5,757

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

39 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 2012			Year ended 31 December 2011		
	Research and development activities	Sales of medical products	Total	Research and development activities	Sales of medical products	Total
Turnover	1,647	230,880	232,527	–	133,890	133,890
Segment profit/(loss)	2,739	76,199	78,938	(2,654)	52,622	49,968
Unallocated income			1,819			1,769
Unallocated costs			(23,057)			(14,110)
Profit before income tax			57,700			37,627
Income tax expense			(5,264)			(5,255)
Profit for the year			52,436			32,372

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.

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

39 SEGMENTAL INFORMATION (continued)

	Research and development activities	Sales of medical products	Unallocated activities	Total
31 December 2012				
Segment assets	**52,379**	**335,011**	**149,906**	**537,296**
Segment liabilities	**(119,279)**	**(103,925)**	**(53,978)**	**(277,183)**
Net	**(66,900)**	**231,086**	**95,928**	**260,113**
Other segment items				
Depreciation	**2,922**	**6,150**	**587**	**9,659**
Amortisation	**20**	**1,906**	**107**	**2,033**
Provision of impairment of receivables	**–**	**623**	**–**	**623**
Other non-cash expenses	**–**	**4,504**	**–**	**4,504**
31 December 2011				
Segment assets	26,117	209,565	123,199	358,881
Segment liabilities	(99,714)	(47,400)	(10,700)	(157,814)
Net	(73,597)	162,165	112,499	201,067
Other segment items				
Depreciation	2,391	801	2,017	5,209
Amortisation	18	2,133	127	2,278
Provision of impairment of receivables	–	209	–	209
Inventories write-down	–	2,367	–	2,367
Other non-cash expenses	–	–	51	51

Note: Unallocated activities mainly represent the holding of cash, bank deposits, available-for-sale investments and property, plant and equipments by the Group during the years that cannot be allocated to the principal activities specifically.

Revenues of approximately RMB72,083,000 (2011: RMB29,211,000) are derived from a single external customer. These revenues are attributable to the sales of medical products segment.

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

40 COMMITMENTS

(i) Operating lease commitments

As at 31 December 2012, the Group had future aggregate minimum lease payments due under non-cancellable operating leases in respect of property as follows:

	2012	2011
Within one year	102	306

(ii) Capital commitments

Capital expenditure contracted for at 31 December 2012 but not yet incurred is as follows:

	2012	2011
Property, plant and equipment	20,159	29,241

41 FINANCIAL RISK MANAGEMENT

(i) Financial risk factors

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

(a) Market risk

(1) Foreign exchange risk

The Group operates mainly in domestic market and is considered not to expose to any significant foreign exchange risks in the years ended 31 December 2012 and 31 December 2011.

41 FINANCIAL RISK MANAGEMENT (continued)

(i) Financial risk factors (continued)

(a) Market risk (continued)

(2) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets and liabilities, except for cash placed with banks and other financial institutions (Note 28), bank borrowings (Note 29) and loans from government authorities (Note 30).

The Group's interest rate risk arises from long term bank borrowings and loans from government authorities. Long term bank borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash placed with banks and other financial institutions. Long term bank borrowings issued at fixed rates expose the group to fair value interest rate risk. The interest rates and terms of repayment of the Group's borrowings are disclosed in Notes 29.

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

As at 31 December 2012, if interest rates on borrowings and loans from government authorities had been 10% higher/lower with all other variables held constant, gain for the year would have been RMB256,000 (2011: 10%, RMB276,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

The carrying amount of cash and bank, trade and other receivables and deposits represent the Group's maximum exposure to credit risk in relation to financial assets.

All bank deposits and cash were deposited in the high quality financial institutions without significant credit risk.

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

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

41 FINANCIAL RISK MANAGEMENT (continued)

(i) Financial risk factors (continued)

(c) Liquidity risk

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

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

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Group				
At 31 December 2012				
Bank borrowings	**81,248**	**16,840**	**25,400**	**–**
Loans from government authorities	**10,030**	**–**	**–**	**–**
Trade and other payables	**70,617**	**–**	**–**	**–**
At 31 December 2011				
Bank borrowings	30,736	2,760	43,450	–
Loans from government authorities	1,680	10,030	–	–
Trade and other payables/ Amount due to a shareholder	20,976	–	–	–
Company				
At 31 December 2012				
Bank borrowings	**75,621**	**–**	**–**	**–**
Loans from government authorities	**–**	**–**	**–**	**–**
Trade and other payables/ Amount due to a subsidiary	**77,443**	**–**	**–**	**–**
At 31 December 2011				
Bank borrowings	27,976	–	–	–
Loans from government authorities	1,650	–	–	–
Trade and other payables/ Amount due to a shareholder/ Amount due to a subsidiary	34,374	–	–	–

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

41 FINANCIAL RISK MANAGEMENT (continued)

(ii) Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank borrowings and loans from government authorities) less cash and cash equivalents. Total capital is calculated as "equity", as shown in the consolidated balance sheet, plus net debt.

During 2012 and 2011, the Group's strategy is to maintain a gearing ratio within 50%. The gearing ratios at 31 December 2012 and 2011 were as follows:

	2012	2011
Total borrowings (Notes 29 and 30)	**126,498**	78,310
Less: Cash and cash equivalents (Note 28)	**(158,267)**	(110,069)
Net debt	**(31,769)**	(31,759)
Total equity	**260,113**	201,067
Total capital	**228,344**	169,308
Gearing ratio	**-14%**	-19%

The decrease in the gearing ratio during 2012 resulted primarily from the profit of the year and capital contribution by non-controlling interests (Note 37).

(iii) Fair value estimation

Available-for-sales investments are at their fair values based on the quoted price.

The carrying amounts of the Group's cash and bank balances, trade receivables, amount due from related parties, other receivables, amount due to a shareholder, trade payables and other payables and accruals approximate their fair values because of the short maturity of these instruments. Fair value of the borrowings is disclosed in Note 29.

42 SUBSEQUENT EVENTS

On 4 February 2013, the Company completed placing 142,000,000 H shares with a par value of RMB0.10 each at a price of HKD1.70. Therefore, the number of shares of the Company was increased from 710,000,000 shares to 852,000,000 shares, and the number of H shares was increased from 198,000,000 shares to 340,000,000 shares, while the domestic shares remain unchanged as 512,000,000 shares.

43 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 19 March 2013.