上海復旦張江生物醫藥股份有限公司

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

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

(Stock code: 1349)

Annual Report 2013

* For identification purpose only

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Fang Jing
Ke Ying
Shen Bo
Yu Xiao Yang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pan Fei
Cheng Lin
Zhou Zhong Hui
Lam Yiu Kin

SUPERVISORS

Zhao Wen Bin *(Chairman)*
Li Ning Jian
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)*
Shen Bo
Cheng Lin

REMUNERATION COMMITTEE

Cheng Lin *(Chairman)*
Pan Fei
Fang Jing

NOMINATION COMMITTEE

Wang Hai Bo *(Chairman)*
Pan Fei
Cheng Lin

INTERNATIONAL AND STATUTORY AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Zhong Tian LLP

LEGAL ADVISERS TO THE COMPANY

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China, Zhangjiang Sub-branch
Bank of China, Zhangjiang Sub-branch
Bank of Nanjing, Shanghai 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
183 Queen's Road East, Hong Kong

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

15/F The Bank of East Asia Building
10 Des Voeux Road Central, Hong Kong

AUTHORISED REPRESENTATIVE TO ACCEPT SERVICE OF PROCESS AND NOTICES

ONC Lawyers
15/F The Bank of East Asia Building
10 Des Voeux Road Central, Hong Kong

LISTING INFORMATION

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

WEBSITE

www.fd-zj.com

Five Years Financial Data Highlights

RESULTS

	Year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**415,925**	232,527	133,890	92,390	61,905
Operating profit	**108,360**	63,866	42,489	6,932	(5,050)
Finance costs	**(9,414)**	(6,166)	(4,862)	(2,946)	(2,545)
Profit before income tax	**98,946**	57,700	37,627	3,986	(7,595)
Income tax expense	**(15,405)**	(5,264)	(5,255)	(2,801)	(879)
Profit for the year	**83,541**	52,436	32,372	1,185	(8,474)
Profit attributable to:					
Shareholders of the Company	**87,218**	53,159	30,826	3,681	(7,320)
Non-controlling interests	**(3,677)**	(723)	1,546	(2,496)	(1,154)
Total comprehensive income for the year	**83,541**	52,446	32,362	1,185	(7,515)
Total comprehensive income attributable to:					
Shareholders of the Company	**87,218**	53,166	30,819	3,681	(6,438)
Non-controlling interests	**(3,677)**	(720)	1,543	(2,496)	(1,077)
EBITDA	**124,212**	74,874	49,313	13,972	2,192
Basic and diluted earnings per share for profit attributable to the shareholders of the Company (RMB)	**0.1009**	0.0749	0.0434	0.0052	(0.0103)

ASSETS AND LIABILITIES

	As at 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**749,216**	537,296	358,881	304,154	298,831
Total liabilities	**(183,291)**	(277,183)	(157,814)	(135,449)	(130,463)
	565,925	260,113	201,067	168,705	168,368
Capital and reserves attributable to shareholders of the Company	**532,717**	223,228	170,062	139,243	135,689
Non-controlling interests	**33,208**	36,885	31,005	29,462	32,679
	565,925	260,113	201,067	168,705	168,368

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company"), I present the annual report of the Company together with its subsidiaries (collectively as the "Group") for the year ended 31 December 2013 for consideration by the shareholders.

DEVELOPMENT CONCEPTS AND OBJECTIVE

Aiming to become an innovator in the bio-pharmaceutical industry, the Group commits to its mission "the more we explore, the healthier human beings will be", and targets to provide completely new and more effective treatment and drugs for filling the blank and meeting the improvement requirements of clinical treatment.

RESEARCH STRATEGY, REVIEW AND PROSPECTS

During the period under review, the Group made strategic adjustments in research and development ("R&D") of drugs to create a kind of drugs development model which is based on gene background and molecular mechanism analysis of diseases and relies on the technology of genetic engineering, photodynamic drugs and nano-drugs.

We realize that drugs development for complicated diseases such as tumors, skeletal system diseases, neurodegenerative diseases will increasingly rely on the understanding of gene background and molecular mechanism analysis of the diseases. Also, recent technological improvements such as new sequencing technology and transgenic animal models have provided sufficient and more efficient research tools. "Commercialization advanced scientific exploration" which is spearheaded by the Group and together with drug developers, international top scientists and specialists to explore gene variation and molecular mechanism of the disease in certain areas will improve the ability of drugs development of the Group and optimize drugs development model more efficiently and effectively. This development strategy will lead us to analyze the causes of diseases that we concerned on the fundamental molecular genetic level in order to find new diagnosis and treatment which can bring the hope to patients for their recovery. The potential target for future new drugs, which is found based on thorough study of new signaling pathways in human genetic disease, will become the most stable cornerstone of developing new diagnostic reagent and patent drugs. It can also provide new direction, opportunities and enduring benefits for the development of the Group. Now we have cooperated with some international first-class laboratory scientists to commence the exploration of this kind of research model on skeletal system diseases. We began to conduct research on regulating osteoarthritis and osteoporosis drugs based on special factors in wnt signaling pathway and hedgehog signaling pathway. We will cooperate with outstanding clinicians and hospitals to find representative samples of genetic diseases in China for gene research and then discover the gene that caused the disease. Then we will commence the research on molecular mechanism, animal models and drug leads in the international first-class laboratory cooperated with us.

We also realized the importance of clinicians' exploration and experiences for the new drugs development in the treatment of complicated diseases such as angiocardiopathy and dermal disease. Translational medicine will become another important basis for new drugs development. We are now cooperating with a famous medical research institution in United States to develop a kind of echogenic liposomes containing nano-gas for the protection of nerve cells of stroke patients. We wish to provide help to those stroke patients with the highest mortality rate in China. In addition, we have developed and been developing several kinds of photodynamic drugs based on the treatment exploration on various complicated dermal diseases from clinicians.

GENETIC TECHNICAL PLATFORM

The Group will enhance the ability on building genetic technical platform. Gene technology including signaling pathways control, suppress or strengthen the protein activity, will become the core technology in the area of new drugs development, especially when the research bases on the most fundamental and specific causes and molecular mechanism of diseases. We have commenced the research on anti-sclerostin mab (骨硬化蛋白抗體), PCSK9 etc. To keep the balance of development and meet the requirements of therapy in China, the Group will continue in developing new protein drugs based on drug targets which have been used and mature antibody-drug conjugate technology. We will try to realize the commercialization of protein drugs as early as we can.

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

A phase II clinical trial of the Recombinant human lymphotoxin α-derivatives (LT) (重組人淋巴毒素α衍生物) for the treatment of tumors has been completed. The result demonstrated that the progression-free survival (PFS, 無進展生存期) as well as the overall survival (OS, 總生存期) were not improved in subjects with Advanced Esophageal Squamous Carcinoma (晚期食管鱗癌). In addition, the objective response rate (ORR, 客觀緩解率) did not increase neither. However, there has been a trend of PFS and response rate improvement in the high dose group, although without statistical difference. The Group will continue to investigate its mechanisms in tumors and determine the new research plan.

Clinical Trial Application for High bio-activity recombinant human TNF receptor (重組高親和力TNF受體) for the treatment of arthritis has been submitted. The project is in the communication stage of the review process. The drug is mainly used to treat self-immunological diseases, such as arthritis. The size of potential market is enormous. The Group holds independent intellectual property right ("IPR") of the drug and has applied for PCT patent. It will be one of the key R&D projects of the Group.

During the period under review, the Group restarted the phase I clinical trial of PTH (重組人甲狀旁腺激素) for the treatment of osteoporosis. At the same time, indication of osteoarthritis was also in the research.

The antibody-drug conjugate drugs have shown obvious advantages on tumor treatment in clinical trials, which is much better than the effect of the conventional antibody plus chemotherapy drugs. In order to follow the development trend in bio-pharmaceutical area, CD30-MMAE for the treatment of tumors has entered into pre-clinical study.

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

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

Avastin for the treatment of tumor has entered into pre-clinical study.

PHOTODYNAMIC TECHNICAL PLATFORM

The Group will expand the drugs development based on photodynamic technical platform. Photodynamic drugs have become the most important pipeline of the Group with the feature of "one drug, several indications". Photodynamic technology has become a new scalpel for clinical treatment. The Group will make efforts to explore the relationship between the therapeutic mechanisms of photodynamic drugs and special causes of diseases in order to research and develop new clinical indications of existing drugs and new drugs to provide new approach for clinical therapy and diagnosis. In addition, the Group will commence further research on molecular mechanism and their mode of action in order to discover new photodynamic compound to improve the efficacy and overcome the defects. The Group will cooperate with other institutions to develop new photodynamic equipment and apply for the international registrations for the launched drugs, which will lay a foundation for the commercialization development of the Group. We have the confidence to become the global leader in photodynamic drugs development area and are willing to make contributions to make photodynamic drugs be used more widely.

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

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

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

Aminolevulinic Acid Hydrochloride used for the treatment of CIN infected by HPV has entered into the phase I clinical trial. Currently there is no effective intervention or therapy for this disease. New indications of adjuvant therapy with Aminolevulinic Acid Hydrochloride for brain gliomas and treatment for basal cell carcinoma are entering into pre-clinical study.

Hemoporfin (海姆泊芬), the first photodynamic drug for the treatment of port wine stain in the world, is a new drug with new drug target, new compound and new indication. Now the Group has obtained the New Drug Certificates issued by the State Food and Drug Administration and plans to launch for sale in the first half of 2015.

Duteroporphyrin (多替泊芬) for the treatment of tumors has completed the phase I clinical trial and will enter into the clinical phase II soon.

At the same time, in order to improve our photodynamic drugs group, the Group plans to develop new photodynamic chemical compound to overcome the defect of the compounds included in the launched and used photodynamic products. In addition, the Group will design several laser and LED equipment for the treatment of different indications. On the other hand, the Group has cooperated with academic institutions to set up software and hardware repository for photodynamic drugs in order to make the research in the field more systematic and theoretical.

NANO TECHNICAL PLATFORM

The Group will further develop drugs based on new delivery technique including intravenous liposome nano drugs, oral Granular drug to improve bioavailability and slow-release drugs for skin health management. The Group will research on other new agents such as hypodermic depofoam technique and biodegradable microsphere technique. The Group firmly believes that new agents will improve the drug's efficacy and reduce the associated risk, furthermore they will speed up the ability and the progress of commercialization for the Group.

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

Libod® (里葆多®) for the treatment of tumors, was launched to market in August 2009. The drug is used for the treatment of AIDS-relating Kaposi's sarcoma, breast cancer and ovarian cancer. The Group is registering in United States due to the tremendous market capacity of breast cancer and obtained the FDA's approval for clinical research in January 2014.

Vincristine sulfate liposome (LVCR) for the treatment of malignant tumors has entered into phase I clinical trial.

Nanoparticle Albumin-bound Paclitaxel (紫杉醇白蛋白納米粒) for the treatment of tumors, has entered into pre-clinical study.

Echogenic liposomes containing Xenon for the treatment of stroke, a project the Group cooperated with an American company and a research institution has entered into the pre-clinical study.

DIAGNOSIS TECHNOLOGY

During the reporting period the report covered, the Group increased spending on diagnosis technique and reagent research, the new fluorescence immunity analyzer and the matching prenatal screening reagent obtained the approval for launching to the market in December 2013. The new time-resolved immunoassay system improves the fluorescence excitation efficiency with its lower cost, smaller volum, higher testing efficiency, etc. compared with traditional time-resolved immunoassay system. In addition, it resolved the problem that traditional time-resolved immunoassay system can only be used in big hospitals. The Group hopes these products can be used widely in numerous junior township hospitals to provide better birth defect intervention services for rural pregnant women.

Moreover, the Group will gradually enrich the diagnosis product lines in addition to downs syndrome testing by relying on the brand image and market share in the field of birth defects screening.

The Group will try to set the medium and long-term plans of R&D which are beneficial for investors whenever possible, but on the development path to explore unknown, to break the normal procedures and to create innovative treatments, we will face significant risks and challenges. We should ***stand on solid ground*** and must ***look up at the starry sky***. Hope our efforts can provide useful help for the patients and be of value to investors.

By the end of the year 2013, the major drugs under R&D of the Group are summarized as follows:

Technical platform	Project name	Indications	Progress
Genetic Engineering	Recombinant tissue type plasminogen activator (r-tPA)	Heart infarction	Technology transferred, letter of approval for drug registration issued
	Recombinant human lymphotoxin α -derivatives (LT)	Tumor	Clinical trial phase II completed, stopped moving forward to discuss new plan
	Recombinant human tumor necrosis recipient Fc fusion protein (Etanercept)	Arthritis	Domestic and overseas rights transferred respectively, Clinical study completed, and rights of royalty retained
	High bio-activity recombinant human TNF receptor (重組高親和力TNF受體)	Arthritis	Application for clinical study has been submitted
	PTH (重組人甲狀旁腺激素)	Osteoporosis	Restart clinical trial phase I
	CD30-MMAE	Tumor	Pre-clinical study
	Anti-sclerostin mab (骨硬化蛋白抗體)	Osteoporosis	Pre-clinical study
	PCSK9	Hypercholesterolemia	Pre-clinical study
	Avastin	Tumor	Pre-clinical study
Photodynamic technique	Hemoporfin (海姆泊芬)	Port wine stain	Obtained the New Drug Certificate, plan to launch for sale in the first half of 2015
	Deuteroporphyrin (多替泊芬)	Tumors	Clinical trial phase I completed
	Aminolevulinic acid	Cervical diseases infected by HPV	Clinical trial phase I
	Aminolevulinic acid	Acne	Pre-clinical study
	Aminolevulinic acid	Brain gliomas	Pre-clinical study
	Aminolevulinic acid	basal cell carcinoma	Pre-clinical study

Technical platform	Project name	Indications	Progress
Nano technique	Doxorubicin liposome (鹽酸多柔比星脂質體)	Tumors	Registered in USA, obtained the approval for clinical trial
	Vincristine sulphate liposome (LVCR)	Tumors	Clinical trial phase I
	Nanoparticle Albumin-bound Paclitaxel (紫杉醇白蛋白納米粒)	Tumors	Pre-clinical study
	Xenon liposome	Stroke	Pre-clinical study
Others	Antenatal Screening Diagnostic Reagent	Down's Syndrome, etc.	Under research
	Nifeviroc (尼非韋羅)	AIDS	Research AIDS prevention.

In February 2011, the Company entered into a strategic cooperation agreement (the "Strategic Cooperation Agreement") with Shanghai Pharmaceuticals Holding Co., Ltd ("Shanghai Pharmaceuticals") 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 Group which are currently at various research stages. During the year 2013, the agreement was enforced as stipulated and R&D work was performed in order.

COMMERCIALIZATION STRATEGY, REVIEW AND PROSPECTS

During the period under review, the Group obtained satisfactory results on commercialization. Product sales revenue increased by 82% compared with that of the last year.

ALA (艾拉®) which is indicated 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. It has had 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 2013 increased by 44%. It is still expected that there will be a sustained increase in the future.

Eyan (易妍®), makeup product for the treatment of acne was launched for sale in the second half of 2010. Compared with last year, its revenue increased by 59% in 2013. It is 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 has brought favourable market response. Compared with last year, its revenue increased by 147% in 2013. It is still expected to make big contribution to the sales revenue of the Group in future.

FuMeiDa (the proposed brand name of Hemoporfin), which is for the treatment of Port Wine Stain has now entered the pilot production stage. The Company has obtained drug production license and is required to further obtain the drug approval number and pharmaceutical GMP certificate ("GMP Certificate") ect. before FuMeiDa can be launched to the market. As Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd ("Taizhou Pharmaceutical") is a new constructed manufacture plant, the ordering circle for production lines was much longer than expected. In addition, time for scale-up of the process and optimization was extended as well so that it may need more time to obtain the drug approval number and GMP Certificate. It is estimated that the time for launch to market of FuMeiDa will be delayed to the first half of 2015. We deeply apologize to investors and patients for the delay.

During the period under review, all the product lines of the Group passed GMP Certification of China Food and Drug Administration. Our objective is to set up the product lines which can meet international standards so that our products could be sold worldwide. Two product lines launched in Shanghai and Taizhou will start to apply for the certification of U.S. Food and Drug Administration in the year 2014.

During the period under review, the Group made an adjustment on market academic promotion and set up a network service system integrated with academic exchange, clinical case sharing, standard practice video, Q&A between doctors and patients, etc. More than 4,000 dermatologists have joined photodynamic technology WeiXin communication platform, which is of positive significance to products promotion and brand recognition.

Considering that more drugs are going to be registered, the subsidiary of the Company, Taizhou Pharmaceutical has constructed two production lines for the material and injection of Hemoporfin. To make the two production lines at full capacity, the Group has chosen several generic drugs which can be produced with Hemoporfin on the same production line to register. More investment on production lines will be made in the next few years so as to make it become the centralized production base of the Group.

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. The Group is moving toward a virtuous stage of development.

By the end of the year 2013, the commercialized projects of the Group are summarized as follows:

Technical platform	Project name	Indications	launching time
Photodynamic technique	ALA®	Condyloma acuminate	2007
	Eyan®	Acne	2010
	FuMeiDa®	Port wine stain	Estimated in the first half of 2015
Nano technique	Libod®	Tumors	2009
Others	Antenatal Screening Diagnostic Reagent, analysis software and equipment included Beixi®、Beiyou	Down's Syndrome, etc.	Launched already except for the new type Reagent in 2014

INTELLECTUAL PROPERTY RIGHTS

The Group has been actively protecting its IPR on its innovative medicines and research achievements. During the reporting period, the Group applied for 1 invention patent, and has been granted 7 invention patents both domestic and overseas (Europe, Japan, Australia, Canada, America and Russia). By the end of the year 2013, the Group has cumulatively applied for 61 invention patents, and has been granted 34 invention patents.

GRANTS AND AWARDS

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

Key New Drugs Creation "Targeting Anti-tumor Innovative Drugs Incubation Base Construction" obtained further financial aid of National Special Grant for Key S&T Project with a total amount of RMB 5,827,000. An amount of RMB 1,767,000 has been received during the year 2013. As at 31 December 2013, the Company has received RMB 4,247,000 accumulatively. Moreover, the matching grant from Pudong New District totalling RMB 582,700 has been approved. As at 31 December 2013, the Company received RMB 349,600. The project has also applied for another matching grant from Shanghai government amounting to RMB 11,654,000 in total. As at 31 December 2013, the application has been approved.

The project of "The clinical trial on Aminolevulinic acid for CIN" obtained S&T grant from Shanghai Science and Technology Committee with a total amount of RMB 600,000. As at 31 December 2013, the Company received RMB 480,000.

The project of "The R&D and commercialization of Hemoporfin, the National New Drug Class 1" obtained special financial aid from Jiangsu Province for R&D Achievements of Science and Technology amounting to RMB 10,782,000. The grant has fully been received during the year 2013.

The project of "Technical Improvement of Hemoporfin" obtained financial aid from the National Development and Reform Commission for Industry Rejuvenation and Technical Improvement in 2013 amounting to RMB 7,860,000. The grant has fully been received during the year 2013.

The project of "The Commercialization of Hemoporfin for injection" obtained financial aid for Strategic Emerging Industries in Jiangsu Province amounting to RMB 10,000,000. The Group has received RMB 7,000,000 during the year 2013.

ALA® has been certified as "Top 10 Innovative Corporation of Shanghai Hi-tech Achievement Transfer Projects in 2012" and ranked No. 1 of "Top 100 of Shanghai Hi-tech Achievement Transfer Projects in 2012".

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
26 March 2014

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.

REVENUE

The Group's consolidated revenue for the year 2013 amounted to approximately RMB 415,925,000, comparing to RMB 232,527,000 for the year 2012, representing an increase of 79%.

The total revenue for the year 2013 came from the sales of medical products, revenue recognized from exclusive distribution rights and the revenue from technology transfer. The source of total revenue for the year ended 2012 was the same as that of 2013.

Revenue from sale of medical products

Revenue of the Group from the sale of medical products for the year 2013 was RMB 410,847,000 (or 99% of the total revenue), increased by 82% from that of last year which was RMB 225,880,000. The major products of the Company, ALA®(鹽酸氨酮戊酸，ALA) and Libod®(鹽酸多柔比星脂質體，Doxorubicin liposome), have contributed 43% and 52% to the total revenue of the Group, respectively.

Revenue from exclusive distribution rights

The Company signed the sole agency agreement (the "Sole Agency Agreement") with NT Pharma (Jiangsu) Co., Ltd. in February 2011 and granted it the exclusive distribution rights of Libod®. The agreement replaced the previous exclusive distribution agreement with Nanjing Medical Co., Ltd. The total consideration was RMB 20,000,000, of which, an amount of RMB 5,000,000 (or 1.2% of the total revenue) was recognized as revenue in 2013. The amount recognised for the year 2012 was RMB 5,000,000.

Revenue from technology transfer

Revenue from technology transfer for the year 2013 was approximately RMB 78,000. It 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 in the relevant technology transfer contract.

COST OF SALES

For the year 2013, cost of sales of the Group was RMB 32,407,000, while the corresponding figure for 2012 was RMB 23,557,000. The ratio of cost of sales to revenue from sale of products dropped to 8% from the level of 10% for last year. The deduction of costs mainly benefits from economies of scale. Consumption of materials has been reduced by increasing success rates of products manufacturing. Factory overhead and consumption of materials had been reduced accordingly.

OPERATING PROFIT

For the year 2013, operating profit of the Group was RMB 108,360,000, comparing to the operating profit of RMB 63,866,000 for the year 2012, representing an increase of 70%.

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

- Other income for the year 2013 was RMB 46,417,000, compared with RMB 48,223,000 for the year 2012, representing an decrease of 4%. It is mainly due to a decrease in income according to the Strategic Cooperation Agreement signed with Shanghai Pharmaceutical, the Group has recognized related income amounting to RMB 27,492,000 in the year 2013 (2012: RMB 28,814,000).

- R&D costs for the year 2013 was RMB 68,108,000, compared with RMB 45,312,000 for the year 2012, representing an increase of 50%. It is mainly because the Group has added several new research projects and some projects have entered into clinical trial.

- Distribution and marketing costs for the year 2013 was RMB 232,057,000, compared with RMB 126,620,000 of the year 2012, representing an increase of 83%. The distribution and marketing costs grew in line with the increase in revenue from sale of medical products. The ratio of distribution and marketing costs to revenue for sale of products increased to 56.5% from 56.1% for last year, and remains generally stable.

- Administrative expenses for the year 2013 was RMB 20,772,000, compared with RMB 16,810,000 for the year 2012, representing an increase of 24%. It is mainly due to the increases in payroll, welfare and bonus.

- Other operating expenses for the year 2013 was RMB 638,000, compared with RMB 4,585,000 for the year 2012, representing a decrease of 86%. It is mainly due to the decrease in loss related to the disposal of property, plant and equipment as a result of the reconstruction of the production workshop and renewal of equipment by the Company.

FINANCE COSTS

For the year 2013, finance costs of the Group was RMB 9,414,000, compared with RMB 6,166,000 for the year 2012, representing an increase of 53%. It is mainly due to the loss in exchange rate of Hong Kong dollars derived from the placement of H shares of the Company in 2013.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company of RMB 87,218,000 was recorded in the consolidated financial statements for the year 2013, compared with that of RMB 53,159,000 for the year 2012.

The profit attributable to shareholders of the Company of RMB 97,488,000 was recorded in the financial statements of the Company for the year 2013, compared with that of RMB 53,406,000 for the year 2012.

SIGNIFICANT INVESTMENTS

For the year 2013, the Group did not have any significant investment.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the year 2013, the Group did not have any material acquisition or disposal of subsidiaries and associated companies.

CONTINGENT LIABILITIES

As at 31 December 2013, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

On 1 March 2012, the Group put its leasehold land in pledge to obtain a bank loan. Particulars are set out in notes 15 and 29 to the consolidated financial statements.

BANKING FACILITIES

On 21 March 2011, the long-term bank borrowing of RMB 40,000,000 was taken by Taizhou Pharmaceutical, a subsidiary of the Group, and bore an interest rate of 6.40%. Among the long-term bank borrowing, RMB 15,000,000 is secured by the leasehold land of Taizhou Pharmaceutical, and is due for repayment on 21 March 2014; the loan has been classified as current liability as at 31 December 2013; the remaining RMB 25,000,000 is guaranteed by the Company, and is due for repayment on 20 March 2015.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 26 February 2008, the Company entered into an agreement with a wholly owned subsidiary of Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. ("Zhangjiang Hi-Tech") for cooperation in construction of the industrial space next to the Company's existing site. Zhangjiang Hi-Tech was one of the major shareholders of the Company and sold all its equity in the Company during the reporting period. This was a connected and discloseable transaction. Details of this transaction were set out in the Company's circular issued on 28 March 2008. The transaction was approved at the extraordinary general meeting of the Company held on 23 May 2008. The Company transferred the construction-in-progress project in March 2010. As at 31 December 2013, the Company purchased the industrial buildings next to the Company's existing site, and the registration of property right of the real estate had been completed.

As at 31 December 2013, the basic construction of the manufacturing plant in Taizhou was completed and has entered the pilot production stage.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations and investing activities with internally generated financial resources, proceeds from the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, proceeds from the share placement, grants from the municipal government authorities and commercial loans. As at 31 December 2013, the Group had loans with an aggregate of RMB 40,000,000 outstanding. Such loans are secured or guaranteed bank loans.

As at 31 December 2013, the Group had cash and cash equivalents of approximately RMB 324,927,000.

The Group's gearing ratio as at 31 December 2013 was negative 1.01 (31 December 2012: negative 0.14) which was calculated based on the Group's net debt of negative RMB 284,927,000 (31 December 2012: negative RMB 31,769,000) and total capital of RMB 280,998,000 (31 December 2012: RMB 228,344,000).

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

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND SALARIES

As at 31 December 2013, the Group had a total of 430 employees, as compared to 397 employees as at 31 December 2012. Staff costs including directors' remuneration for the year 2013 were RMB 64,695,000, compared with RMB 49,156,000 for the year 2012. 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 "Remuneration Committee" section of the "Corporate Governance Report".

Report of the Directors

The Board is pleased to present the annual report for the year 2013 and the audited consolidated financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

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

The Group's revenue for the year 2013 was generated from sales of medical products, the revenue from 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 38 to the consolidated financial statements, unlike for the year 2012, the Group only operates a single business segment in 2013 and hence no segment information is presented for the year 2013.

MAJOR CUSTOMERS AND SUPPLIERS

During the period covered by this report, the percentages of the major customers and suppliers in the Group's total sales and purchases are as follows:

	Percentage in the Group's total	
	Sales	**Purchases**
Largest customer	51.45%	
Total of the five largest customers	83.31%	
Largest supplier		21.59%
Total of the five largest suppliers		43.10%

Shanghai Pharmaceuticals, a substantial shareholder of the Company, is a key customer of the Company. The connected transactions with Shanghai Pharmaceuticals have been approved at the general meeting of Shareholders. 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 largest customers or suppliers.

RESULTS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of comprehensive income and related explanatory notes to the consolidated financial statements.

DIVIDEND

At the Board meeting on 26 March 2014, the Board did not propose the distribution of any dividend for the year ended 31 December 2013 due to the limited profit available for distribution.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 34 to the consolidated financial statements.

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

On 29 June 2012, the Company adopted a restricted share scheme to issue no more than 71,000,000 domestic shares as restricted shares 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 contributed 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, contributed directly to the overall business performance and sustainable development of the Group.

On 24 June 2013, the Company completed the grant of restricted shares under the initial grant and received the approval from, and completed the registration and filing procedures with the relevant authorities in China. The Company granted 35,500,000 restricted shares to the scheme participants at the grant price of RMB 0.51 per restricted share pursuant to the restricted share scheme. Upon completion of the initial grant, the share capital of the Company was increased to RMB 88,750,000.

On 21 October 2013, the Company completed the grant of restricted shares under the second grant and received the approval from, and completed the registration and filing procedures with the relevant authorities in China. The Company granted 35,500,000 restricted shares to the scheme participants at the grant price of RMB 0.51 per restricted share pursuant to the restricted share scheme. Upon completion of the second grant, the share capital of the Company was increased to RMB 92,300,000.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 35 to the consolidated financial statements respectively. As at 31 December 2013, the retained earnings of the Group attributable to the shareholders of the Company available for distribution is RMB 12,038,000.

PROPERTY, PLANT AND EQUIPMENT

Details of movements 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 (Resigned on 30 May 2013)
Zhu Ke Qin (Resigned on 30 May 2013)
Ke Ying
Shen Bo
Yu Xiao Yang (Appointed on 30 May 2013)

Independent Non-executive Directors

Pan Fei
Cheng Lin
Weng De Zhang (Resigned on 9 October 2013)
Zhou Zhong Hui (Appointed on 30 May 2013)
Lam Yiu Kin (Appointed on 9 October 2013)

Supervisors

Zhu Zu Shun (Resigned on 30 May 2013)
Zhao Wen Bin *(Chairman)* (Appointed on 30 May 2013)
Chen Meng Zhao (Resigned on 30 May 2013)
Li Ning Jian (Appointed on 30 May 2013)
Zhang Man Juan
Guo Yi Cheng
Xu Qing

CORPORATE GOVERNANCE

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

1) Corporate governance report

2) Report of the supervisory committee

3) Report of the audit committee

4) Report of the remuneration committee

5) Report of the nomination committee

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

PROFILES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

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

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

	Number	
	Year 2013	Year 2012
Directors	**3**	3
Non-directors	**4**	4
	7	7

The emoluments fell within the following bands:

	Number	
	Year 2013	Year 2012
The emoluments range (HKD)		
< 1,000,000	**–**	1
1,000,000 – 1,500,000	**1**	5
1,500,000 – 2,000,000	**5**	1
2,500,000 – 3,000,000	**1**	–
	7	7

Details of emoluments of senior management are set out in note 37 to the consolidated financial statements.

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

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

DETAILS OF OPTIONS GRANTED BY THE COMPANY

As at 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 and currently the Company does not have any share option scheme in force.

RESTRICTED SHARE SCHEME

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

Pursuant to the scheme, the scope of scheme participants shall mainly include Directors, senior management, mid-level management and main research staff of the 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 date of this report, the Company has completed both grants of restricted shares 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 2013, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO"); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules") were as follows:

Name of Directors	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in Domestic Shares	Percentage in total share capital
Wang Hai Bo	Domestic Shares	57,886,430 (L)	Beneficial owner	Personal	9.93%	6.27%
Su Yong	Domestic Shares	22,312,860 (L)	Beneficial owner	Personal	3.83%	2.42%
Zhao Da Jun	Domestic Shares	19,260,710 (L)	Beneficial owner	Personal	3.30%	2.09%
Fang Jing	Domestic Shares	5,654,600 (L)	Beneficial owner	Personal	0.97%	0.61%

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

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2013, the persons other than a director, chief executive or supervisor of the Company who have interests and/or short positions in the shares or underlying shares of the Company subject to disclosure under Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register maintained under Section 336 of the SFO, or as notified to the Company and the Stock Exchange were as follows (the interests in shares and/or short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, chief executive and Supervisors):

Name of substantial shareholders	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the respective class of share capital	Percentage in total share capital
Shanghai Industrial Investment (Holdings) Co. Ltd.	Domestic Shares H Shares	139,578,560 (L) 70,564,000 (L)	Interest of controlled corporation	Corporate	23.94% 20.75%	22.77%
Shanghai Pharmaceuticals Holding Co., Ltd.	Domestic Shares H Shares	139,578,560 (L) 70,564,000 (L)	Beneficial owner	Corporate	23.94% 20.75%	22.77%
China New Enterprise Investment Fund II	Domestic Shares	156,892,912 (L)	Beneficial owner	Corporate	26.91%	17.00%
Yang Zong Meng	Domestic Shares	80,000,000 (L)	Beneficial owner	Personal	13.72%	8.67%
Shum Ning	H Shares	31,628,000 (L)	Beneficial owner	Personal	9.30%	3.43%
Fudan University	Domestic Shares	30,636,286 (L)	Interest of controlled corporation	Corporate	5.25%	3.32%
Shanghai Fudan Asset Operating Limited (上海復旦資產經營有限公司)	Domestic Shares	30,636,286 (L)	Beneficial owner	Corporate	5.25%	3.32%
Boxin China Growth Fund I LP	H Shares	27,000,000 (L)	Investment manager	Corporate	7.94%	2.93%

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

Note 2: During the period this report covered, Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. has sold part of its interest in the Company to East J Investment Co., LTD., and East J Investment Co., LTD. has subsequently sold such interest to Yang Zong Meng, a natural person.

CONNECTED TRANSACTIONS

For the year ended 31 December 2013, the connected transactions of the Company are set out as follows:

(1) Connected Transaction

Cooperation framework agreement with a wholly-owned subsidiary of Zhangjiang Hi-Tech

On 26 February 2008, the Company entered into an agreement with a wholly-owned subsidiary of Zhangjiang Hi-Tech for cooperation to construct the industrial space next to the Company's existing site. Zhangjiang Hi-Tech was one of the substantial shareholders and sold all the equity in the Company during the reporting period. This was a connected and discloseable transaction. Details were set out in the Company's circular issued on 28 March 2008. The transaction was approved at the extraordinary general meeting of the Company held on 23 May 2008.

The Company transferred the construction-in-progress project in March 2010. As at 31 December 2013, the Company purchased the industrial buildings next to the existing site, and the registration of property right of real estate had been completed.

(2) Continuing Connected Transactions

Sales and distribution agreement with Shanghai Pharmaceutical Distribution

In order to leverage the established and extensive sales and distribution network of Shanghai Pharmaceuticals, a substantial shareholder, the Company has been engaging Shanghai Pharmaceutical Distribution Co., Ltd. ("Shanghai Pharmaceutical Distribution"), as its distribution agent since 10 August 2010 when the Company entered into a sales and distribution agreement (the "Sales and Distribution Agreement") with Shanghai Pharmaceutical Distribution, a wholly-owned subsidiary of Shanghai Pharmaceuticals. Details of the updated Sales and Distribution Agreement were set out in the circular issued by the Company on 12 April 2013. The Company and Shanghai Pharmaceutical estimated that the proposed annual caps for the continuing connected transactions contemplated under the Sales and Distribution Agreement for the three years ended 31 December 2015 are approximately RMB 20 million, RMB 31 million and RMB 50 million, respectively. The transaction was approved at the annual general meeting of the Company held on 30 May 2013. This is a continuing connected transaction and discloseable transaction. During the year 2013, the product sales revenue to Shanghai Pharmaceutical Distribution was RMB 13,869,000, which did not exceed the proposed annual cap approved at the annual general meeting.

Strategic Cooperation Agreement for Innovative Pharmaceuticals Research and Development with Shanghai Pharmaceuticals

In February 2011, the Company entered into the Strategic Cooperation Agreement with Shanghai Pharmaceuticals for the cooperation on innovative pharmaceutical research and development. Both parties would jointly share the risks of, and cooperate on, the research, development and commercialization of the relevant potential pharmaceuticals owned by the Group which are currently at various research stages. Details were set out in the Company's circular issued on 8 April 2011. The transaction was approved at the annual general meeting of the Company held on 27 May 2011. The proposed annual caps for the continuing connected transactions contemplated under the Strategic Cooperation Agreement for the three years ended 31 December 2013 were approximately RMB 37 million, RMB 32 million and RMB 40 million, respectively. This is a continuing connected transaction and disclosable transaction. During the year 2013, the Group recognized the cooperation development income with Shanghai Pharmaceuticals amounting to RMB 27,492,000, which did not exceed the proposed annual cap approved at the annual general meeting held on 27 May 2011.

The Audit Committee has reviewed the above mentioned continuing connected transactions and confirmed that the transactions have been entered into:

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

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

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

(4) 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 its unqualified letter containing its 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 the Stock Exchange on 26 March 2014.

Details of material related party transactions undertaken in the ordinary and usual course of business are set out in note 37 to the consolidated financial statements. None of these related party transactions constitutes a connected transaction that should be disclosed, except for the above connected transaction and continuing connected transactions, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2013.

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial reporting, internal controls and corporate governance issues and making relevant recommendations to the Board. The Audit Committee comprises two Independent Non-executive Directors and one Non-executive Director who are Mr. Pan Fei, Mr. Cheng Lin and Mr. Shen Bo. Mr. Pan Fei was appointed as the chairman of the Audit Committee.

The Audit Committee reviews the accounting principles and practices adopted by the Group as well as the internal controls to check whether they comply with the Listing Rules, and reviews issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee reviewed the Group's annual results for 2013 before proposing to the Board for approval.

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

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers. The Company has not changed the auditor during the last three years.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

By Order of the Board
Wang Hai Bo
Chairman

Report of the Directors

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)*
Ms. Ke Ying *(Non-executive Director)*
Mr. Shen Bo *(Non-executive Director)*
Ms. Yu Xiao Yang *(Non-executive Director)*
Mr. Pan Fei *(Independent Non-executive Director)*
Mr. Cheng Lin *(Independent Non-executive Director)*
Mr. Zhou Zhong Hui *(Independent Non-executive Director)*
Mr. Lam Yiu Kin *(Independent Non-executive Director)*

Shanghai, the PRC
26 March 2014

Report of the Supervisory Committee

To the Shareholders:

The supervisory committee of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Supervisory Committee") has performed its duties for the year 2013 in accordance with the relevant provisions and requirements of the Company Law and the Articles of Association, and the Supervisors have attended all board meetings. They reviewed the Group's financial statements and gave advice and recommendations on the issues which were reflected in the Group's operations and management.

The Supervisory Committee duly supervised the Directors and senior management's compliance with the laws and regulations as well as the Articles of Association, in carrying out their duties, and the legal procedures on the change of directorship. The Supervisory Committee held the opinion that there was no violation of the PRC laws and regulations or the Articles of Association by the Directors and managers during the year 2013.

The Supervisory Committee was of the view that the resolutions passed in all board meetings for the year 2013 had been made with a view to protecting the Group's interests. No insider dealings, or anything which was prejudicial to the interests of the Group, or loss of Group's assets was acknowledged. The auditors' reports issued by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP are true and objective. The Company's financial statements have accurately reflected the Group's financial position.

The Supervisory Committee is satisfied with the achievement and progress of each task of the Group in 2013 and has great confidence in the future of the Group.

Supervisory Committee

Mr. Zhao Wen Bin *(Chairman)*
Mr. Li Ning Jian
Ms. Zhang Man Juan
Mr. Guo Yi Cheng
Mr. Xu Qing

Shanghai, the PRC
26 March 2014

Report of Audit Committee

The Audit Committee comprises two Independent Non-executive Directors and one Non-executive Director. Mr. Pan Fei, Independent Non-executive Director, was appointed as the chairman of the Audit Committee. Mr. Pan Fei is a PhD in accounting, and is a member of the American Accounting Association. Mr. Cheng Lin is a PhD in economics. Mr. Shen Bo is a master of professional accounting and he is the Chief Financial Officer of a listed company with extensive experience in financial management. All of them have 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 which were passed by the Board of the Company specifically laid down the terms of reference of the Audit Committee and elaborated its role and the power as conferred to the Audit Committee by the Board.

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

A summary of the work performed by the Audit Committee in 2013 is as follows:

1) Review the financial reports for the year ended 31 December 2012 and for the half year ended 30 June 2013, and the quarterly reports ended 31 March 2013 and 30 September 2013, respectively;

2) Review connected transactions of the Company during the year 2012;

3) Supervise 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 2013.

The Audit Committee meeting held on 26 March 2014 reviewed the Company's 2013 consolidated financial statements together with the Company's external auditors, including a review of the accounting principles and practice principles adopted by the Group. Based on the results of the review and after discussion with the management and the auditors, the Audit Committee agreed with the accounting treatments adopted by the Company, and has made efforts to ensure that the financial information disclosed in the consolidated financial statements complies with relevant requirements of the applicable accounting principles and the Listing Rules. Accordingly, the Audit Committee proposed that the Board approved the announcement of the consolidated financial statements for the year ended 31 December 2013, and the Audit Committee proposed that the Board considered the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the international and the statutory auditors of the Group, respectively, for the year 2014.

In 2013, the Audit Committee held four meetings.

Audit Committee

Mr. Pan Fei *(Chairman)*
Mr. Cheng Lin
Mr. Shen Bo

Shanghai, the PRC
26 March 2014

Report of Remuneration Committee

The Remuneration Committee is comprised of 3 members, who are Mr. Cheng Lin (Chairman and Independent Non-executive Director), Mr. Pan Fei (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 Remuneration Committee under the Listing Rules of other places where the Company's securities are listed (as amended from time to time).

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

A summary of the work performed by the Remuneration Committee in 2013 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 2012;

3) Formulate the remuneration scheme for the Directors and Supervisors for 2013;

4) Review and approve the implementation plan of restricted share scheme, assessment, the list of scheme participants, granted quantity and the grant price.

The Remuneration Committee held two meetings in 2013.

Remuneration Committee

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

Shanghai, the PRC
26 March 2014

Report of Nomination Committee

The Nomination Committee is comprised of 3 members, who are Mr. Wang Hai Bo (Chairman, Chairman of Board of Directors), Mr. Cheng Lin (Independent Non-executive Director), and Mr. Pan Fei (Independent Non-executive Director).

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

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

A summary of the work performed by the Nomination Committee in 2013 is as follows:

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

2) Review and propose the candidates of shareholder supervisors;

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

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

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

The Nomination Committee held two meetings in 2013.

Nomination Committee

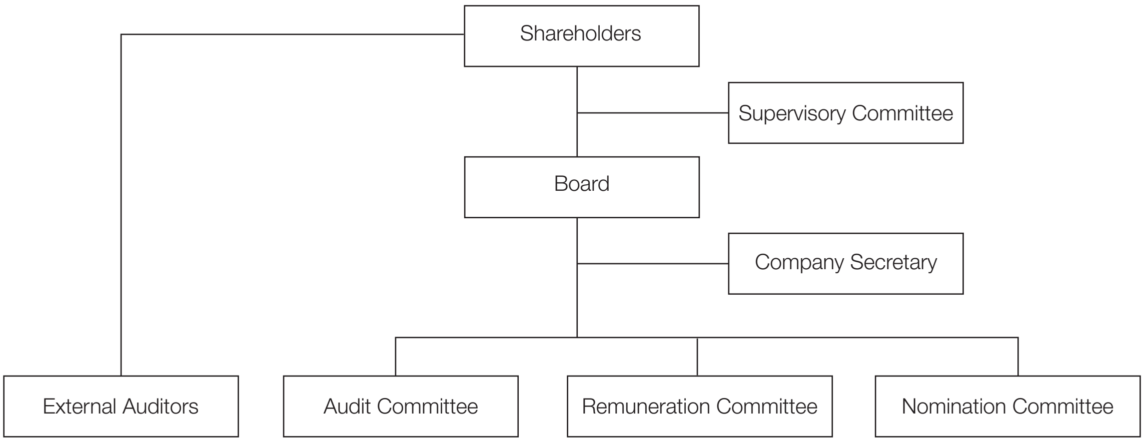
Mr. Wang Hai Bo *(Chairman)*
Mr. Cheng Lin
Mr. Pan Fei

Shanghai, the PRC
26 March 2014

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 Appendix 14 (Corporate Governance Code and Corporate Governance Report) (the "Code") of the Listing Rules. In some aspects, the codes of corporate governance adopted by the Company are even stricter than the provisions as set out in the Code. 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:

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

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

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

BOARD

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

Directors

Currently, the Board comprises the Chairman, two Executive Directors, four Non-executive Directors and four Independent Non-executive Directors. Except for Ms. Yu Xiao Yang who joined the Board as Non-executive Director and Mr. Zhou Zhong Hui who joined the Board as Independent Non-executive Director on 30 May 2013, Mr. Lam Yiu Kin who joined the Board as Independent Non-executive Director on 9 October 2013, all the other Directors were in place in the whole year of 2013.

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
Ke Ying	27 May 2011	–	Three years
Shen Bo	29 June 2012	–	Two years
Yu Xiao Yang	30 May 2013	–	One year
Independent Non-executive Directors			
Pan Fei	20 June 2003	27 May 2011	Three years
Cheng Lin	10 July 2002	27 May 2011	Three years
Zhou Zhong Hui	30 May 2013	–	One year
Lam Yiu Kin	9 October 2013	–	From the date of appointment until the date of the 2014 annual general meeting

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

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

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

Powers of the Board

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

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

2) Implementing the resolutions of the general meetings;

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

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

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

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

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

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

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

10) Setting the basic management policies of the Company;

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

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

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

Chairman and the General Manager

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

Board Diversity

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

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

As at the date of this report, the Board comprises 11 directors. Two of them are women and one of them resides in Hong Kong. Four of them are Independent Non-executive Directors and are able to promote a critical review and control of the management process. The composition of the Board is diversified in terms of gender, nationality, professional background and skills.

Board Meetings

The Chairman is responsible for the leadership of the Board and ensuring the Board to perform its duties effectively. The Chairman is also responsible for setting agenda for the Board and considering matters which are proposed by other directors for inclusion in the agenda. The agenda and accompanying board papers are circulated where possible at least three days prior to the Board or committee meeting. The Chairman is also responsible for making sure that all Directors are properly briefed on issues which will be discussed at board meetings. The Chairman ensures that the Directors can receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Group through their initial induction, ongoing participation at board and committee meetings, and through meeting key people at the 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 among the Directors, such that the Non-executive Directors can put forward queries to each Executive Director effectively. The Independent Non-executive Directors meet privately to discuss matters which are associated with their specific responsibilities when necessary,

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

The Board met 8 times during 2013. The attendance of individual directors at the board meetings is set out in the table below.

Members of the Board	Attendance in person	Attendance by way of communication	Attendance by proxy	Absence	Attendance rate
Executive Directors					
Wang Hai Bo *(Chairman)*	8	0	0	0	100%
Su Yong	7	0	1	0	100%
Zhao Da Jun	8	0	0	0	100%
Non-executive Directors					
Fang Jing	8	0	0	0	100%
Hao Hong Quan (Resigned on 30 May 2013)	0	0	0	3	0%
Zhu Ke Qin (Resigned on 30 May 2013)	0	0	0	3	0%
Ke Ying	8	0	0	0	100%
Shen Bo	8	0	0	0	100%
Yu Xiao Yang (Appointed on 30 May 2013)	0	5	0	0	100%
Independent Non-executive Directors					
Pan Fei	8	0	0	0	100%
Cheng Lin	4	0	2	2	75%
Weng De Zhang (Resigned on 9 October 2013)	5	0	0	0	100%
Zhou Zhong Hui (Appointed on 30 May 2013)	3	0	1	1	80%
Lam Yiu Kin (Appointed on 9 October 2013)	0	3	0	0	100%

The table below sets out the time and major agenda of Board meetings in 2013:

Time of Board meetings	Major agenda
Regular Board meetings	
19 March 2013	Reviewed the annual report of 2012; Considered the re-appointment of the auditors; Considered the 2013 remuneration plans for Directors and Supervisors; Determined the time for annual general meeting.
9 May 2013	Reviewed the first quarterly results report of 2013.
8 August 2013	Reviewed the interim results report of 2013.
7 November 2013	Reviewed the third quarterly results report of 2013.
Extraordinary Board meetings	
3 February 2013	Considered the implementation plan of the restricted share scheme, assessment, the list of scheme participants, granted quantity and price; Considered the capital increase agreement of domestic shares pursuant to the restricted share scheme.
15 August 2013	Considered the proposal for change of Directors.
9 October 2013	Considered to appoint Mr. Shen Bo as a member of the Audit Committee; Considered to formulate the Board Diversity Policy according to the latest Listing Rules; considered the updated terms of reference for the Nomination Committee.
6 December 2013	Considered change in board lot size.

Directors' Training

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

During the reporting period, all directors participated in the continuing education program to develop and update their knowledge and skills. The Board invited Baker & McKenzie to provide a training and the attendance of the training was as follows:

Members of the Board	Attendance/ Times of trainings	Attendance rate
Wang Hai Bo *(Chairman)*	1/1	100%
Su Yong	1/1	100%
Zhao Da Jun	1/1	100%
Fang Jing	1/1	100%
Hao Hong Quan (Resigned on 30 May 2013)	0/0	–
Zhu Ke Qin (Resigned on 30 May 2013)	0/0	–
Ke Ying	1/1	100%
Shen Bo	1/1	100%
Yu Xiao Yang (Appointed on 30 May 2013)	1/1	100%
Pan Fei	1/1	100%
Cheng Lin	1/1	100%
Weng De Zhang (Resigned on 9 October 2013)	0/0	–
Zhou Zhong Hui (Appointed on 30 May 2013)	1/1	100%
Lam Yiu Kin (Appointed on 9 October 2013)	1/1	100%

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

Directors' and Supervisors' Interests

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

The Group has not entered into any material contracts in which the Group's Directors or Supervisors have direct or indirect interests during any time in 2013.

Directors and Supervisors' Service Contracts

All the Directors and Supervisors have entered into service contracts with the Company, which are renewable upon expiry, subject to re-election at the general meeting. The terms of the service contracts are approved by the remuneration committee. Some directors will be proposed for re-election at the forthcoming annual general meeting. The Company has not entered into any service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

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

None of the Directors, chief executive or Supervisors or their spouse or children 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 2013.

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

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

SUPERVISORY COMMITTEE

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

Supervisors	Time of initial appointment	Date of latest re-appointment	Term
Zhu Zu Shun (Shareholders' representative Supervisor)	16 June 2006	27 May 2011	Resigned on 30 May 2013
Chen Meng Zhao (Shareholders' representative Supervisor)	29 June 2012	29 June 2012	Resigned on 30 May 2013
Zhao Wen Bin (Shareholders' representative Supervisor)	30 May 2013	30 May 2013	1 year
Li Ning Jian (Shareholders' representative Supervisor)	30 May 2013	30 May 2013	1 year
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

The Supervisory Committee held six meetings during 2013, the attendance of which was as follows:

Members of the Supervisory Committee	Attendance	Attendance rate
Zhao Wen Bin *(Chairman)* (Appointed on 30 May 2013)	0/3	0%
Chen Meng Zhao (Resigned on 30 May 2013)	3/3	100%
Li Ning Jian (Appointed on 30 May 2013)	3/3	100%
Zhang Man Juan	6/6	100%
Guo Yi Cheng	5/6	83%
Xu Qing	5/6	83%
Zhu Zu Shun (Resigned on 30 May 2013)	0/3	0%

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

DIRECTORS' SECURITIES TRANSACTIONS

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

Under this code, the Directors are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the delegated directors and receive a dated written acknowledgement before any dealing.

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

All Directors, Supervisors and relevant employees have complied with the relevant requirements in 2013.

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 2013. In February 2011, the Company established the Internal Audit and Control Department to enhance its internal control system and guarantee the effectiveness of the Company in respect of financial, operational, compliance and risk management.

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

Corporate Governance Measures to Manage Potential Conflicts of Interests

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

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

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

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

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

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial report, internal control and corporate governance issues and making relevant recommendations to the Board. The Audit Committee was comprised of three Independent Non-executive Directors and the composition of the Audit Committee was adjusted on 9 October 2013. And now the Audit Committee is comprised of two Independent Non-executive Directors and one Non-executive Director. Mr. Pan Fei (an Independent Non-executive Director) is 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 formulated 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 2013. Senior management and/or external auditors were invited to attend each meeting. In 2013, the Audit Committee has reviewed reports of external auditors, the accounting principles and practices adopted by the Group, internal controls to check whether they comply with the Listing Rules and reviewed issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee made discussions on the Group's 2013 quarterly, half-year results and 2012 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 2013:

Audit Committee	**Attendance in person/ Times of meetings**	**Attendance rate**
Pan Fei *(chairman)*	4/4	100%
Cheng Lin	4/4	100%
Weng De Zhang (resigned on 9 October 2013)	3/3	100%
Shen Bo (appointed on 9 October 2013)	1/1	100%

Connected transactions

The Audit Committee has reviewed the connected transactions. For the year ended 31 December 2013, the connected transactions were either exempted from disclosure requirement or have been approved by the general meeting.

External auditors

The Group appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the Group's international and statutory auditors respectively in 2013. The Company has not changed the auditors in the past three years. The fees on the audit, non-audit services and related expenses for the year and the previous year are set out as follows:

Auditor	**Audit fees and non-audit fees in 2013**	Audit fees and non-audit fees in 2012
PricewaterhouseCoopers	**RMB 988,000**	RMB 844,000
PricewaterhouseCoopers Zhong Tian LLP	**RMB 658,000**	RMB 472,000

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

	Fees in 2013	Fees in 2012
Audit fees		
Annual statutory audit fees	**RMB 1,238,000**	RMB 1,300,000
Non-audit fees		
Non-audit service for transfer from the Growth Enterprise Market to the Main Board	**RMB 300,000**	–
Capital verification service for the placement of H shares (Note)	**RMB 100,000**	–
Scrutinize service for annual general meeting and extraordinary general meeting	**RMB 8,000**	RMB 16,000

Note: This non-audit fee was deducted from the proceeds from H share placing and presented in the consolidated balance sheet within "Reserves".

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

REMUNERATION COMMITTEE

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

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

The Board established the Remuneration Committee, and stipulated the "Principles of the Remuneration Committee" with specific terms of reference of the Remuneration Committee. The Remuneration Committee is comprised of 3 members, who are Mr. Cheng Lin (Chairman, Independent Non-executive Director), Mr. Pan Fei (Independent Non-executive Director) and Ms. Fang Jing (Non-executive Director).

The Remuneration Committee held two meetings during 2013, the attendance of which was as follows:

Remuneration Committee	Attendance in person/ Times of meetings	Attendance rate
Cheng Lin *(chairman)*	1/2	50%
Pan Fei	2/2	100%
Weng De Zhang (resigned on 9 October 2013)	2/2	100%
Fang Jing	2/2	100%

Pursuant to the principles above, recommended by the Remuneration Committee and approved by the Board and general meeting, the remuneration of the Directors and senior management of the Group have been modified during the year 2013. Refer to note 13 and note 37 to the consolidated financial statements for the emoluments of Directors and senior management for 2013.

Remuneration Policy for Executive Directors

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

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

Basic salaries

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

Discretionary bonus

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

Statutory benefits

Under the relevant laws and regulations of the PRC, 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 the Non-executive Directors and Shareholders' 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 and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; examining the candidates of directors and chief executive and the candidates of deputy chief executive, finance officer, general legal counsel, chief economist, assistant to chief executive and secretary of Board and putting forward examination opinions and appointment recommendations; assessing the independence of Independent Non-executive Directors; making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive; researching the standard, procedure and method of selection of directors, chief executive and other senior management of the Company and putting forward proposals to the Board; and other authority delegated to the Committee by the Board and matters assigned by the Board.

The Board of the Company established the Nomination Committee in April 2012 and approved the "Principles of the Nomination Committee" which stipulated the terms of reference for the Nomination Committee. The Nomination Committee is comprised of 3 members, who are Mr. Wang Hai Bo (Chairman, Chairman of Board of Directors), Mr. Cheng Lin (Independent Non-executive Director) and Mr. Pan Fei (Independent Non-executive Director).

The Nomination Committee held two meetings during 2013, the attendance of which was as follows:

Members of the Nomination Committee	Attendance	Attendance Rate
Wang Hai Bo *(chairman)*	2/2	100%
Chen Lin	2/2	100%
Pan Fei	1/2	50%
Weng De Zhang (Resigned on 9 October 2013)	2/2	100%

Pursuant to the Code Provision A.5.6 under Appendix 14 of the Listing Rules, the Nomination Committee should be with due regard for the benefits of diversity in Board members, to identify individuals who are suitably qualified to become Board members and to select or to make recommendations to the Board on the selection of individuals nominated for directorships; the candidates for directorship will be selected taken into account a wide range of factors, including but not limited to, gender, age, cultural and educational background, races, professional experience, skills, knowledge and service term. The Company updated the Principles of the Nomination Committee on 9 October 2013.

COMPANY SECRETARY

The primary responsibility of the company secretary of the Company is to ensure good information exchange between board members, and investors with the Company as well. In addition, the Company Secretary is responsible for the compliance with the policies and procedures of the board of directors as well as all applicable regulations.

During the year 2013, the Company Secretary has completed over 15 hours of training provided 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

In recent years, the Company has attracted much higher attention from the capital markets. Investors at home and abroad addressed invitations to the Company through various means, including on-site surveys, telephone surveys, and invitations to participate in investment strategy forums. Based on the principles of communicating actively and information disclosure, the Company enhanced the efforts on the relationship with investors to improve our market image. The Company has received visits of nearly 300 analysts and representatives from investment institutions focusing on the domestic and foreign medical industries.

On 13 September 2013, an application was made by the Company to the Stock Exchange for the transfer of listing in order to enhance the image of the Company and increase the liquidity and recognitions of the H shares by attracting larger institutional and retail investors. Dealings in the H shares on the Main Board commenced on 16 December 2013 and the new stock code is "1349".

The board lot size of the Shares for trading on the Stock Exchange changed from 4,000 shares to 1,000 shares in 2013.

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

For the year 2013, there is no significant change on the Articles of Association of the Company except for the changes as a result of the placement and the completion of the restricted share scheme.

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

In 2013, the Company has held an annual general meeting, details of which are as follows:

Time	10:00 a.m., 30 May 2013
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Shareholders annual general meeting
Way of voting	Poll
Major issues	General matters of the annual general meeting; Resolved to approve the entering into of the sales and distribution agreement with Shanghai Pharmaceuticals Distribution Co., Ltd. and the annual caps for the three financial years ending 31 December 2015 for the continuing connected transactions; Resolved to approve the entering into of the strategic cooperation agreement for innovative pharmaceuticals research and development with Shanghai Pharmaceuticals Holding Co., Ltd. and the annual caps for the three financial years ending 31 December 2016 for the continuing connected transactions; Resolved to approve to conduct the second grant of restricted shares pursuant to the restricted share scheme; Resolved to approve the proposed transfer of listing from the Growth Enterprise Market of the Stock Exchange to the Main Board of the Stock Exchange.

In 2013, the Company has held a H Shareholders Class Meeting, details of which are as follows:

Time	11:00 a.m., 30 May 2013
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	H Shareholders Class Meeting
Way of voting	Poll
Major issues	Resolved to approve to conduct the second grant of restricted shares pursuant to the restricted share scheme; Resolved to approve the proposed transfer of listing from the Growth Enterprise Market of the Stock Exchange to the Main Board of the Stock Exchange.

In 2013, the Company has held a Domestic Shareholders Class Meeting, details of which are as follows:

Time	11:30 a.m., 30 May 2013
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Domestic Shareholders Class Meeting
Way of voting	Poll
Major issues	Resolved to approve to conduct the second grant of restricted shares pursuant to the restricted share scheme; Resolved to approve the proposed transfer of listing from the Growth Enterprise Market of the Stock Exchange to the Main Board of the Stock Exchange.

In 2013, the Company has held an extraordinary general meeting, details of which are as follows:

Time	10:00 a.m., 9 October 2013
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Extraordinary General Meeting
Way of voting	Poll
Major issues	Resolved to approve the appointment of Mr. Lam Yiu Kin as an Independent Non-executive Director.

The attendance of individual directors at the general meetings during the year 2013 is set out in the table below:

Member of the Board	Attendance	Attendance rate
Executive Director		
Wang Hai Bo *(Chariman)*	2/2	100%
Su Yong	2/2	100%
Zhao Da Jun	2/2	100%
Non-executive Director		
Fang Jing	1/2	50%
Hao Hong Quan (Resigned on 30 May 2013)	0/1	0%
Zhu Ke Qin (Resigned on 30 May 2013)	0/1	0%
Ke Ying	2/2	100%
Shen Bo	2/2	100%
Yu Xiao Yang (Appointed on 30 May 2013)	0/1	0%
Independent Non-executive Director		
Pan Fei	2/2	100%
Cheng Lin	2/2	100%
Weng De Zhang (Resigned on 9 October 2013)	0/1	0%
Zhou Zhong Hui (Appointed on 30 May 2013)	0/1	0%
Lam Yiu Kin (Appointed on 9 October 2013)	–	–

Arrangements for the dates of the annual results in 2013, the interim results in 2014 and the annual general meeting are as follows:

Items	Proposed time
Announcement of 2013 results	26 March 2014
Annual general meeting	30 May 2014
Announcement of 2014 interim results	Around 10 August 2014

SOCIAL RESPONSIBILITY

Environment and Society

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

The Company will publish the environmental report of 2013 on the Company's website.

Social public welfare

The Company also cares for the the disadvantaged and organizes a "Love Travelling" under the "Ginkgo Plan" every year. The Company went to "Bai Ma Xue Shan Tibetan School" in Yun'nan province to contribute some medicine, books and commodities to the local children who needed help in October 2013.

The Company answered the call to support Shanghai senior public welfare undertakings by donating RMB 150,000 to Shanghai Senior Citizens Foundation in December 2013.

By order of the Board
Xue Yan
Secretary

Shanghai, the PRC
26 March 2014

Profiles of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Wang Hai Bo, aged 53, was appointed as an Executive Director in November 1996. He is also the chairman of the Board and general manager of the Company. He founded the Company in November 1996. He was an associate professor at Fudan University from May 1995 to June 1996. He has published numerous articles, earning him awards such as the Star Fire Grade III Award (國家星火三等獎), Education Committee Grade II Award (教委二等獎) and Technology Advancement Award of the Shanghai Province (上海市科技進步獎). He graduated from Fudan University with a bachelor's degree in Biology in July 1983 and master's degree in Biology in July 1986. He was the former chief technology officer of Zhejiang Shenghua Biok Biology Co. Ltd., a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 600226).

Su Yong, aged 49, was appointed as an Executive Director in January 2002. He is also the deputy general manager of the Company. He joined the Company in April 1997. He has been working in the field of genetic engineering for over nine years. He was the chief engineer of Hangzhou Jiuyuan Gene Engineering Co., Ltd. from January 1994 to April 1997, during which he was responsible for managing the genetic engineering department. He graduated from Northwest Normal University with a bachelor's degree in Biology Science in July 1985, from Fudan University with a master's degree in Biochemistry in July 1993, and from Zhejiang University with a Ph.D. in Oncology in June 2000.

Zhao Da Jun, aged 43, was appointed as an Executive Director in January 2002. He is also the deputy general manager, compliance officer and an authorized representative of the Company. He is a cofounder of the Company. He was a teaching assistant at the law school of Fudan University from August 1995 to October 1996. He was awarded the National Education Committee on Technology Advancement Grade II Award (國家教委科技進步二等獎) in 1997. He graduated from Fudan University with a bachelor's degree in Biology in July 1992, a master's degree in Biology in July 1995, and from University of Hong Kong with a master's degree in Business Administration in November 2001.

Non-executive Directors

Fang Jing, aged 44, was appointed as a Non-executive Director in January 2002. She is the financial controller of several subsidiaries of Shanghai Zhangjiang (Group) Co., Ltd. She was the former financial controller of the Company from November 1997 to 2002. She used to be the manager in investment department and property operation department of Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. from 2002 to 2012. She graduated from Shanghai Finance College majoring in finance in 1990.

Ke Ying, aged 45, was appointed as a Non-executive Director in May 2012. She is a senior engineer. She is currently the deputy general manager of Research and Development Department of Shanghai Pharmaceutical Holding Co., Ltd. She has extensive management experience in R&D of drugs. She used to be the deputy manager of Shanghai Si Wei Pharmaceutical Technical Co., Ltd. (上海斯威醫藥化學技術有限公司) from 1999 to 2002, the project manager and assistant general manager of Shanghai Kaiman Bio-technology Co., Ltd. (上海凱曼生物科技有限公司) from 2002 to 2004, and the minister of Resource Department and the assistant principal of the Central Research Institute of Shanghai Pharmaceutical Holding Co., Ltd. from 2008 to 2010. She graduated from East China Normal University with a bachelor's degree in Chemistry in July 1990, and a master's degree in Fine Organic Synthesis in July 1993.

Shen Bo, aged 40, was appointed as a Non-executive Director in June 2012. He is a member of the Chinese Institute of Certified Public Accountants. He is the Chief Financial Officer 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. from 1996 to 2000, financial director of Shanghai Jinling Tai Ke IT Development Co., Ltd. from May 2000 to December 2000, Chief Financial Officer of Shanghai Industrial Pharmaceutical Investment Co., Ltd. from January 2006 to November 2006 and general manager of the financial department of Shanghai Pharmaceutical (Group) Co., Ltd. from 2006 to 2010. He graduated from the Shanghai Institute of Construction Materials Industry with a bachelor's degree in Economics in July 1996, and from Chinese University of Hong Kong with a Master of Professional Accounting in December 2007.

Yu Xiao Yang, aged 56, was appointed as a Non-executive Director in May 2013. She has over 20 years of banking and investment experience. She is a Founding Partner of China New Enterprise Investment (CNEI) and was a founder of Victoria Capital Limited, a corporate finance advisory firm in 1998, and served as its Managing Partner. She was among the first mainland Chinese to embark on a professional career with major international financial institutions. She served at Paris Bank in Geneva, Dresdner Bank in Frankfurt, London and New York from 1980 to 1985, and Salomon Brothers in New York from 1987 to 1991, working in the areas of M&A and corporate finance. She graduated from International Management Institute (Geneva), predecessor of International Institute for Management Development, IMD with a master's degree in Business Administration in May 1982.

Independent Non-executive Directors

Pan Fei, aged 57, was appointed as an Independent Non-executive Director in June 2003. He 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 Accounting Association. He has published numerous articles in various financial and economics publications in the PRC and has obtained several awards. He has established and developed many accounting courses for students of different levels since 1995. He graduated from Shanghai University of Finance and Economics with a bachelor's degree in Accounting in July 1983, a master's degree in Accounting in July 1991, and a Ph.D. in Management Accounting in January 1999.

Cheng Lin, aged 50, was appointed as an Independent Non-executive Director in July 2002. He is currently a professor in Economics, and the Head of the Asia Economy Research Institute in Shanghai University of Finance and Economics. He has been a lecturer at Shanghai University of Finance and Economics since 1998. He has published numerous articles in various financial and economics publications in the PRC. He graduated from Shanghai University of Finance and Economics with a Ph.D. in Economics in July 1998.

Zhou Zhong Hui, aged 66, was appointed as an Independent Non-executive Director on 30 May 2013. He is a member of the International Advisory Committee of the China Securities Regulatory Commission, the Audit Regulation Committee of Chinese Institution of Certified Public Accountant and the managing director of China Appraisal Society. He used to be the Chief Accountant of the China Securities Regulatory Commission from 2007 to 2011, a Partner, the General Manager and Chief Accountant of PricewaterhouseCoopers Zhong Tian CPAs Limited Company from 1992 to 2007 and a professor of Shanghai University of Finance and Economics from 1980 to 1998. He has been an independent non-executive director of BesTV New Media Co., Ltd., a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 600637) since 23 December 2011. He has been an independent non-executive director of China Pacific Insurance (Group) Co., Ltd., a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 601601) and the Stock Exchange (Stock Code: 02601) since 31 May 2013. He graduated from Shanghai University of Finance and Economics with a master's degree in Economics in November 1983, and a Ph.D. in Economics in January 1993.

Lam Yiu Kin, aged 59, was appointed as an Independent Non-executive Director on 9 October 2013. He is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants in Australia (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). He is presently an Adjunct Professor in the School of Accounting and Finance of the Hong Kong Polytechnic University, and a committee member of the Hong Kong Management Association. Mr. Lam has extensive experiences in accounting, auditing and business consulting. He was a member of the Listing Committee of the Stock Exchange of Hong Kong Limited from 1997 to 2003, a committee member of HKICPA from 1994 to 2009, a member of the Financial Reporting Advisory Panel of the Stock Exchange of Hong Kong Limited from 1997 to 2003 and a partner with PricewaterhouseCoopers Hong Kong from 1993 to 2013. He graduated from Hong Kong Polytechnic University with a higher diploma in June 1975.

SUPERVISORS

Zhao Wen Bin, aged 39, was appointed as an independent supervisor on 30 May 2013. He is currently the managing director of Shanghai Fudan Asset Operating Limited (上海復旦資產經營有限公司). He used to be deputy managing director of the Enterprise Incubation & Equity Management Office of Fudan University, the secretary of Fudan Charity Fund, deputy director of Student Service Union, deputy secretary of Fudan University Committee of the Communist Youth League, etc. He graduated from Fudan University in 1998.

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

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

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

Xu Qing, aged 49, was appointed as an independent supervisor in May 2008. He is currently the deputy director of the Oncology Department of Tongji Unversity 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 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 has been engaged in the fundamental and clinical research on tumor for a long time. He has published over 20 articles in medical journals both domestic and abroad. He graduated from The Second Military Medical University with a Ph.D. degree. He did his postdoctoral research in the H.Lee. Moffitt Tumor Centre of University of South Florida as a visiting scholar.

SENIOR MANAGEMENT

Li Jun, aged 45, is a cofounder of the Company. He is a deputy general manager of the Company. He has been responsible for several research projects of the Natural Science Fund, and has published numerous articles. He is a certified pharmacist. He was a teaching assistant and lecturer at Fudan University from August 1993 to November 1996, during which he also served as deputy chief technology officer of Zhejiang Shenghua Biok Biology Co. Ltd. and was involved in the research and manufacture of three new drugs. He graduated from Fudan University with a master's degree in Biology in July 1993. Mr. Li Jun has not held any directorships in listed public companies in the past three years.

Yang Xiao Lin, aged 51, joined the Company in January 2006. He is a deputy general manager of the Company. He has participated in and been in charge of several M&A projects for pharmaceutical companies. He has also been responsible for marketing and selling prescribed and OTC medicine in many sectors, and has obtained good results. He used to be the Marketing Director of Fosun Pharmaceutical Group from December 2001 to January 2005, and General Manager of Zhejiang Kanglaite Pharmaceutical Co., Ltd. from January 2005 to January 2006. He graduated from Chinese Academy of Social Sciences with an MBA degree in 1999. Mr. Yang Xiao Lin has not held any directorships in listed public companies in the past three years.

Gan Yi Min, aged 51, joined the Company in 2010. He is a deputy general manager of the Company. He used to be the general manager of Haini Pharmaceutical Co., Ltd. (Shanghai) from 2003 to 2009, responsible for completion of construction of production workshops, laboratories and workstations, recruitment of staff and managers, and establishing a performance evaluation system. He was the production manager of Xi'an Janssen Pharmaceutical Co., Ltd. from 1995 to 2003 responsible for organizing and implementing a number of medium and large technological transformation projects. He obtained a bachelor's degree in Industrial Automation from Xian Technology University in December 1990, an MBA from Xi'an Jiaotong University in December 2001, an EMBA from Antwerp University (Belgium) in October 2002, and a master's degree in Pharma Engineering from Beijing Chemical Engineering University in December 2006. Mr. Gan Yi Min has not held any directorships in listed public companies in the past three years.

COMPANY SECRETARY

Xue Yan, aged 32, was appointed as company secretary in August 2010. She is also the Chief Financial Officer and an authorized representative of the Company. She is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA), a fellow of the Association of Chartered Certified Accountants (ACCA), and a member of the Chinese Institute of Certified Public Accountants (CICPA). She is qualified as a Certified Internal Auditor. She has extensive professional experience in accounting as well as experience in corporate compliance. She graduated from Shanghai University of Finance & Economics with a bachelor's degree in International Accounting.

Independent Auditor's Report

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 64 to 126, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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 2013, 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, 26 March 2014

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013
(All amounts are shown in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2013	2012
Revenue	4	**415,925**	232,527
Cost of sales	6	**(32,407)**	(23,557)
Gross profit		**383,518**	208,970
Other income	5	**46,417**	48,223
Research and development costs	6	**(68,108)**	(45,312)
Distribution and marketing costs	6	**(232,057)**	(126,620)
Administrative expenses	6	**(20,772)**	(16,810)
Other operating expenses	6	**(638)**	(4,585)
Operating profit		**108,360**	63,866
Finance costs	7	**(9,414)**	(6,166)
Profit before income tax		**98,946**	57,700
Income tax expense	10	**(15,405)**	(5,264)
Profit for the year		**83,541**	52,436
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
– Fair value changes on available-for-sale investments	25	**–**	10
Total comprehensive income for the year		**83,541**	52,446
Profit attributable to:			
Shareholders of the Company		**87,218**	53,159
Non-controlling interests		**(3,677)**	(723)
		83,541	52,436
Total comprehensive income attributable to:			
Shareholders of the Company		**87,218**	53,166
Non-controlling interests		**(3,677)**	(720)
		83,541	52,446
Basic and diluted earnings per share for profit attributable to the shareholders of the Company (RMB)	14	**0.1009**	0.0749

The notes on pages 69 to 126 are an integral part of these financial statements.

	Note	Year ended 31 December 2013	2012
Dividend	12	**–**	–

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

As at 31 December 2013
(All amounts are shown in RMB thousands unless otherwise stated)

		Group		Company	
		As at 31 December		As at 31 December	
	Note	**2013**	2012	**2013**	2012
Non-current assets					
Leasehold land payments	15	**33,340**	34,130	**3,967**	4,073
Property, plant and equipment	16	**264,732**	221,263	**107,123**	88,317
Technical know-how	17	**2,099**	1,645	**701**	125
Deferred costs	18	**9,997**	5,817	**740**	1,754
Investments in subsidiaries	19	**–**	–	**80,613**	79,113
Investment in an associate	20	**–**	–	**–**	–
Deferred income tax assets	21	**6,383**	4,364	**5,999**	4,141
Other non-current assets		**2,954**	4,796	**1,738**	4,796
		319,505	272,015	**200,881**	182,319
Current assets					
Inventories	22	**15,568**	6,943	**12,828**	6,546
Trade receivables	23	**66,986**	80,992	**63,841**	78,622
Other receivables, deposits and prepayments	24	**20,432**	10,718	**11,465**	9,307
Amounts due from related parties	26	**1,798**	8,361	**1,714**	8,256
Amounts due from subsidiaries	27	**–**	–	**55,962**	11,131
Cash and cash equivalents	28	**324,927**	158,267	**290,833**	143,605
		429,711	265,281	**436,643**	257,467
Total assets		**749,216**	537,296	**637,524**	439,786
Non-current liabilities					
Borrowings	29	**25,000**	40,000	**–**	–
Deferred revenue	31	**35,647**	14,072	**2,329**	7,333
		60,647	54,072	**2,329**	7,333

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

As at 31 December 2013
(All amounts are shown in RMB thousands unless otherwise stated)

		Group		Company	
		As at 31 December		As at 31 December	
	Note	**2013**	2012	**2013**	2012
Current liabilities					
Trade payables	32	**8,843**	43,827	**7,450**	43,543
Other payables and accruals		**68,159**	57,532	**62,924**	55,872
Current income tax liabilities		**8,977**	5,712	**9,029**	5,448
Amount due to a subsidiary	33	**–**	–	**–**	8,348
Borrowings	29	**15,000**	76,498	**–**	73,500
Loans from government authorities	30	**–**	10,000	**–**	–
Deferred revenue	31	**21,665**	29,542	**11,290**	20,999
		122,644	223,111	**90,693**	207,710
Total liabilities		**183,291**	277,183	**93,022**	215,043
Capital and reserves attributable to shareholders of the Company					
Share capital	34	**92,300**	71,000	**92,300**	71,000
Reserves	35	**440,417**	152,228	**452,202**	153,743
		532,717	223,228	**544,502**	224,743
Non-controlling interests		**33,208**	36,885	**–**	–
Total equity		**565,925**	260,113	**544,502**	224,743
Total equity and liabilities		**749,216**	537,296	**637,524**	439,786
Net current assets		**307,067**	42,170	**345,950**	49,757
Total assets less current liabilities		**626,572**	314,185	**546,831**	232,076

The notes on pages 69 to 126 are an integral part of these financial statements.

Wang Hai Bo
Director

Zhao Da Jun
Director

26 March 2014

Consolidated Statement of Cash Flows

For the year ended 31 December 2013
(All amounts are shown in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2013	2012
Operating activities			
Cash generated from operations	36	**107,084**	123,565
Interest paid		**(5,440)**	(6,166)
Interest received		**1,957**	905
Income tax paid		**(14,159)**	(8,116)
Net cash generated from operating activities		**89,442**	110,188
Investing activities			
Purchase of property, plant and equipment		**(56,716)**	(114,605)
Additions of deferred costs		**(4,563)**	(1,182)
Purchase of technical know-how		**(660)**	(89)
Purchase of available-for-sale investments		**–**	(4,757)
Proceeds from disposal of property, plant and equipment		**1,232**	36
Investments in low-risk bank financial products		**(422,400)**	–
Cash received upon maturity of low-risk bank financial products		**424,552**	–
Proceeds from disposal of available-for-sale investments		**–**	5,669
Net cash used in investing activities		**(58,555)**	(114,928)
Financing activities			
Capital contribution from non-controlling interests		**–**	3,100
Proceeds from placing and issue of restricted shares		**225,963**	–
Expenses paid for placing		**(3,692)**	–
Repayments of loans from government authorities		**(10,000)**	–
Proceeds from borrowings		**15,000**	96,998
Repayments of borrowings		**(91,498)**	(47,160)
Net cash generated from financing activities		**135,773**	52,938
Net increase in cash and cash equivalents		**166,660**	48,198
Cash and cash equivalents at beginning of the year		**158,267**	110,069
Cash and cash equivalents at end of the year	28	**324,927**	158,267

The notes on pages 69 to 126 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013
(All amounts are shown in RMB thousands unless otherwise stated)

	Attributable to shareholders of the Company				Non-controlling interests	Total equity
	Share capital (Note 34)	Capital accumulation reserve (Note 35)	Statutory common reserve fund (Note 35)	(Accumulated losses)/ Retained earnings (Note 35)		
Balance at 1 January 2012	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						
Fair value changes on available-for-sale investments (Note 25)	–	7	–	–	3	10
Total comprehensive income/(loss) for the year 2012	–	7	–	53,159	(720)	52,446
Transactions with shareholders						
Capital contribution from non-controlling interests	–	–	–	–	6,600	6,600
Total transactions with shareholders, recognised directly in equity	–	–	–	–	6,600	6,600
Appropriation to statutory reserve	–	–	3,590	(3,590)	–	–
Balance at 31 December 2012	71,000	211,240	6,419	(65,431)	36,885	260,113
Profit/(loss) for the year 2013	–	–	–	87,218	(3,677)	83,541
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income/(loss) for the year 2013	–	–	–	87,218	(3,677)	83,541
Transactions with shareholders						
Proceeds from shares issued net of issuance costs	21,300	200,971	–	–	–	222,271
Total transactions with shareholders, recognised directly in equity	21,300	200,971	–	–	–	222,271
Appropriation to statutory reserve	–	–	9,749	(9,749)	–	–
Balance at 31 December 2013	92,300	412,211	16,168	12,038	33,208	565,925

The notes on pages 69 to 126 are an integral part of these financial statements.

1 BACKGROUND INFORMATION

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") was established in the People's Republic of China ("PRC") on 11 November 1996 as a limited liability company with an initial registered capital of RMB 5,295,000.

Pursuant to a series of capital injections on 10 November 1997, 11 May 2000, and 12 September 2000 from the existing or the then shareholders of the Company and the capitalisation of reserves of the Company on 11 December 1997 and 20 October 2000, the registered capital of the Company was increased from RMB 5,295,000 to RMB 53,000,000.

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

On 20 January 2002, all of the shares of the Company, being 53,000,000 ordinary shares with a par value of RMB 1.00 each, were subdivided into 530,000,000 ordinary shares ("Domestic Shares") with a par value of RMB 0.10 each.

On 13 August 2002, the trading of the newly issued 198,000,000 ordinary shares ("H Shares") of RMB 0.10 each of the Company commenced on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including 18,000,000 H Shares converted from Domestic Shares. Therefore, the share capital of the Company was increased to RMB 71, 000,000.

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

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 contributed 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, contributed directly to the overall business performance and sustainable development of the Group.

On 24 June 2013, the Company completed the grant of restricted shares under the initial grant and received the approval from, and completed the registration and filing procedures with the relevant authorities in the PRC. The Company granted 35,500,000 restricted shares to the scheme participants at the grant price of RMB 0.51 per restricted share pursuant to the restricted share scheme. Upon completion of the initial grant, the share capital of the Company was increased to RMB 88,750,000.

On 21 October 2013, the Company completed the grant of restricted shares under the second grant and received the approval from, and completed the registration and filing procedures with the relevant authorities in the PRC. The Company granted 35,500,000 restricted shares to the scheme participants at the grant price of RMB 0.51 per restricted share pursuant to the restricted share scheme. Upon completion of the second grant, the share capital of the Company was increased to RMB 92,300,000.

1 BACKGROUND INFORMATION (continued)

On 13 September 2013, an application was made by the Company to the Stock Exchange for the Transfer of Listing. The approval-in-principle was granted by the Stock Exchange on 6 December 2013 for the H Shares to be listed on the Main Board of the Stock Exchange and to be de-listed from GEM. Dealings in the H Shares on the Main Board was commenced on 16 December 2013.

As at 31 December 2013, the Company had direct interests of 100%, 65%, 69.77% and 56% 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 in the PRC.

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

These consolidated financial statements are presented in Renminbi ("RMB") thousands, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors of the Company on 26 March 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New standards, amendments and interpretation adopted by the Group

The following amended standards are mandatory for the first time for the financial year beginning on 1 January 2013.

IFRS 1 (Amendments)	First-time Adoption
IFRS 7 (Amendments)	Financial Instruments: Disclosures
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosures of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 1 (Amendments)	Presentation of Financial Statements
IAS 19 (Amendments)	Employee Benefits
IAS 27 (Amendments)	Separate Financial Statements
IAS 28 (Amendments)	Investments in Associates and Joint Ventures
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

The adoption of the above new standards, amendments and interpretation did not have any significant impact on the Group's financial statements.

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

IFRS 9	Financial Instruments
IFRS 10 (Amendments)	Consolidated Financial Statements
IFRS 12 (Amendments)	Disclosures of Interests in Other Entities
IAS 32 (Amendments)	Financial Instruments: Presentation
IAS 36 (Amendments)	Impairment of Assets, on recoverable amount disclosures
IAS 39 (Amendments)	Novation of Derivatives
IFRIC 21	Levies

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries

2.2.1 Consolidation

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

Intra-group transactions, balances, unrealised gains, 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.

2.2.2 Separate financial statements

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

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

Impairment testing is also required according to Note 2.9.

2.3 Transaction with non-controlling interests

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Associates

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

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

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Segment reporting

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

2.6 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

2.7 Property, plant and equipment

Property, plant and equipment include plant and machinery, furniture, fixtures and computer equipment and motor vehicles and are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property, plant and equipment (continued)

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

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

2.8 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.

2.9 Impairment of non-financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial assets

2.10.1 Classification

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

(i) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's receivables comprise "Trade receivables", "Other receivables, deposits and prepayments" and "Cash and cash equivalents" in the balance sheet (Notes 2.13 and 2.14).

(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 the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period.

2.10.2 Recognition and measurement

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Impairment of financial assets

Assets carried at amortised cost

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

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

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

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

2.12 Inventories

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Trade and other receivables

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

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

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade and other payables

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Deferred revenue

Deferred revenue includes:

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

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

For recognition of deferred revenue, refers to Notes 2.18 and 2.24.

2.18 Government grants

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

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

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

2.19 Borrowings

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Retirement benefit costs

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

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

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

2.22 Borrowing costs

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

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

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

2.23 Provisions

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

2.24 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. Sales are shown net of sales taxes and discounts, and after eliminating sales within the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Revenue recognition (continued)

(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.

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

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

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

2.25 Research and development

Research expenditure is recognised as an expense as incurred.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Research and development (continued)

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

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

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

2.26 Leases

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

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

2.27 Dividend distribution

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Critical accounting estimates and assumptions (continued)

(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 RMB 1,516,000 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.

(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 end of the reporting period. If the provision for impairment of trade and other receivables rate had been 10% higher/lower with all other variables held constant, profit for the year would have been RMB 77,000 lower/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.

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

(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 2013 to be written off or written down.

4 REVENUE

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. Revenue recognised during the year are as follows:

	2013	2012
Sales of medical products	**410,847**	225,880
Exclusive rights (Note (a))	**5,000**	5,000
Technology transfer revenue (Note (b))	**78**	1,647
	415,925	232,527

(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 RMB 20,000,000, of which an amount of RMB 5,000,000 was recognised as revenue in 2013 and 2012 (Note 31).

(b) On 25 March 2002, the Company signed a technology transfer contract with a pharmaceutical company in Shandong Province to transfer Recombinant Tissue Type Plasminogen Activator (r-tPA) for a total consideration of RMB 15,000,000, 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 RMB 78,000 was received and recognised as revenue in 2013 (2012: RMB 147,000).

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 RMB 1,500,000 when the second period of clinical trial successes. Such payment was received and recognised as technology transfer revenue in 2012.

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

5 OTHER INCOME

	2013	2012
Cooperation agreement with SPHCL (note (a))	27,492	28,814
Government grants	14,731	17,589
Gains on investments in financial products (note (b))	2,152	–
Interest income	1,957	905
Gains on disposal of property, plant and equipment	10	22
Gains on disposal of available-for-sale investments	–	891
Others	75	2
	46,417	48,223

(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 (inclusive), and the Group and SPHCL will share equally the future benefits generated from the commercialization of these projects. In addition, SPHCL also agreed to 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 2013, the Company received total payments of RMB 26,653,000 (2012: RMB 28,525,000) from SPHCL under the Agreement, RMB 27,492,000 (2012: RMB 28,814,000) was recognized as other income and the balance of deferred revenue as at 31 December 2013 was RMB 10,517,000 (2012: RMB 15,940,000) (Note 31).

(b) The gains represented the gains on investments in low-risk bank financial products upon maturity.

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

6 EXPENSES BY NATURE

	2013	2012
Amortisation of leasehold land payments (Note 15)	**790**	790
Less: Amounts capitalised in construction in progress	**(684)**	(684)
	106	106
Amortisation of deferred costs (included in 'Cost of sales') (Note 18)	**1,014**	1,222
Amortisation of technical know-how (included in 'Administrative expenses') (Note 17)	**206**	21
Auditors' remuneration		
– Audit services	**1,238**	1,300
– Non-audit services	**308**	16
Provision for impairment of receivables (Note 23)	**769**	623
Inventories write-down	**435**	–
Changes in inventories of finished goods and work in progress	**5,838**	954
Raw materials and consumables used	**22,775**	10,818
Depreciation of property, plant and equipment (Note 16)	**14,526**	9,659
Losses on disposal of property, plant and equipment	**398**	4,504
Operating lease rentals in respect of land and buildings	**742**	644
Research and development costs, excluding employee benefit expenses	**7,495**	5,588
Employee benefit expenses (Note 8)	**64,695**	49,156
Marketing and sales promotion expenses	**199,313**	94,229
Post-marketing study expenses	**19,211**	16,423
Quality inspection expenses	**5,140**	2,886
Others	**9,773**	18,735
Total cost of sales, research and development costs, distribution and marketing costs, administrative expenses and other operating expenses	**353,982**	216,884

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

7 FINANCE COSTS

	2013	2012
Interest expenses:		
– Bank borrowings wholly repayable within 5 years	5,410	6,136
– Loans from government	30	30
Net foreign exchange losses on financing activities	3,974	–
	9,414	6,166

8 EMPLOYEE BENEFIT EXPENSES

	2013	2012
Wages and salaries	51,537	39,075
Housing subsidies	3,003	2,311
Social security costs	4,160	3,243
Retirement benefit costs (Note 9)	5,995	4,527
Employee benefit expenses including directors', supervisors' and senior managements' emoluments	64,695	49,156

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 RMB 5,995,000 and RMB 4,527,000 for the years ended 31 December 2013 and 31 December 2012, respectively.

10 INCOME TAX EXPENSE

	2013	2012
Current income tax	17,424	7,393
Deferred tax credit (Note 21)	(2,019)	(2,129)
	15,405	5,264

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

10 INCOME TAX EXPENSE (continued)

Effective from 1 January 2008, the Company and its subsidiaries are required to determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") as approved by the National People's Congress on 16 March 2007. Following the 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. Moreover, the Company was recognised as a high-tech enterprise, the applicable tax rate of the Company is 15% in 2013 (2012: 12.5%). The applicable tax rates of the subsidiaries are 25% in 2013 (2012: 25%).

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

	2013	2012
Profit before income tax	98,946	57,700
Tax calculated at the applicable tax rate of 25%	24,737	14,425
Effect of tax exemption	(11,288)	(9,341)
Tax losses not recognised as deferred tax assets	4,606	604
Additional deduction of R&D expenditures	(2,976)	(281)
Expenses not deductible for income tax purposes	352	324
Differences of prior year income tax annual filing	(270)	(219)
Effect of unrealised profits on intra-group transactions	244	–
Utilisation of previously unrecognised tax losses	–	(248)
Tax charge	15,405	5,264

11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB 97,488,000 (2012: RMB 53,406,000).

12 DIVIDEND

At the meeting on 26 March 2014, the Board of Directors recommended not to distribute any dividend in respect of the year ended 31 December 2013.

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

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

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:

	2013	2012
Basic salaries and allowances	2,354	2,123
Bonus	2,100	1,200
Fees	150	150
Retirement benefit	121	111
Social security costs	88	82
	4,813	3,666

RMB 325,000 of fees were paid or payable to the independent non-executive directors for the year (2012: RMB 300,000).

The emoluments in respect of executive directors, supervisors and independent non-executive directors paid/payable by the Group for the year ended 31 December 2013 are as follows:

	Director's fee	Basic salaries and allowances	Bonus	Retirement benefit	Social security costs	Total
Executive Directors						
Mr. Wang Hai Bo (chief executive)	–	1,058	900	45	36	2,039
Mr. Su Yong	–	648	600	45	36	1,329
Mr. Zhao Da Jun	–	648	600	31	16	1,295
Independent Non-executive Directors						
Mr. Cheng Lin	100	–	–	–	–	100
Mr. Pan Fei	100	–	–	–	–	100
Mr. Weng De Zhang	67	–	–	–	–	67
Mr. Zhou Zhong Hui	33	–	–	–	–	33
Mr. Lam Yiu Kin	25	–	–	–	–	25
Independent Supervisors						
Mr. Guo Yi Cheng	75	–	–	–	–	75
Mr. Xu Qing	75	–	–	–	–	75
	475	2,354	2,100	121	88	5,138

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

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

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

The emoluments in respect of executive directors, supervisors and independent non-executive directors paid/payable by the Group for the year ended 31 December 2012 are as follows (continued):

	Director's fee	Basic salaries and allowances	Bonus	Retirement benefit	Social security costs	Total
Executive Directors						
Mr. Wang Hai Bo (chief executive)	–	943	500	41	33	1,517
Mr. Su Yong	–	590	350	41	33	1,014
Mr. Zhao Da Jun	–	590	350	29	16	985
Independent Non-executive Directors						
Mr. Cheng Lin	100	–	–	–	–	100
Mr. Pan Fei	100	–	–	–	–	100
Mr. Weng De Zhang	100	–	–	–	–	100
Independent Supervisors						
Mr. Guo Yi Cheng	75	–	–	–	–	75
Mr. Xu Qing	75	–	–	–	–	75
	450	2,123	1,200	111	82	3,966

(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:

	2013	2012
Directors	**3**	3
Non-directors	**2**	2
	5	5

The emoluments fell within the following bands:

	2013	2012
Emolument bands (in HK dollar)		
HKD 1,000,000 – HKD 1,500,000	**–**	4
HKD 1,500,000 – HKD 2,000,000	**4**	1
HKD 2,500,000 – HKD 3,000,000	**1**	–
	5	5

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

	2013	2012
Basic salaries and allowances	**1,296**	1,180
Bonus	**1,050**	600
Retirement benefit	**90**	82
Social security costs	**72**	66
	2,508	1,928

(iv) During the years ended 31 December 2013 and 2012, 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 profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2013	2012
Profit attributable to shareholders of the Company (RMB thousands)	**87,218**	53,159
Weighted average number of ordinary shares in issue (thousands)	**864,352**	710,000
Basic earnings per share (RMB)	**0.1009**	0.0749

There is no difference between the basic and diluted earnings per share for the years ended 31 December 2013 and 2012 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**	
	2013	2012	**2013**	2012
Net book value at beginning of the year	**34,130**	34,920	**4,073**	4,179
Amortisation	**(790)**	(790)	**(106)**	(106)
Net book value at end of the year	**33,340**	34,130	**3,967**	4,073

The original lease terms of the land use rights of the Group held in the PRC are from 47 to 50 years, and the remaining lease period is from 38 to 42 years.

As at 31 December 2013, bank borrowings of Taizhou Pharmaceutical with amount of RMB 15,000,000 (2012: RMB 15,000,000) were secured on leasehold land of Taizhou Pharmaceutical with a net book value of RMB 29,371,777 (2012: RMB 30,056,168) (Note 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 2013 and 31 December 2012 are as follows:

	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Construction in progress	Total
Cost					
At 1 January 2012	81,007	3,033	2,553	66,209	152,802
Additions	26,426	2,899	–	81,168	110,493
Capital contribution from non-controlling interests	2,000	–	–	–	2,000
Transfer from inventories	11,001	–	–	–	11,001
Transfer upon completion	17,486	–	–	(17,486)	–
Disposals	(9,791)	(697)	–	–	(10,488)
At 31 December 2012	128,129	5,235	2,553	129,891	265,808
Additions	**35,148**	**1,334**	**1,042**	**22,722**	**60,246**
Transfer upon completion	**143,511**	**329**	**–**	**(143,840)**	**–**
Disposals	**(6,103)**	**(913)**	**(1,242)**	**–**	**(8,258)**
At 31 December 2013	**300,685**	**5,985**	**2,353**	**8,773**	**317,796**
Accumulated depreciation					
At 1 January 2012	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
Charge for the year	**13,987**	**834**	**336**	**–**	**15,157**
Disposals	**(4,713)**	**(813)**	**(1,112)**	**–**	**(6,638)**
At 31 December 2013	**49,953**	**2,388**	**723**	**–**	**53,064**
Net book value					
At 31 December 2013	**250,732**	**3,597**	**1,630**	**8,773**	**264,732**
At 31 December 2012	87,450	2,868	1,054	129,891	221,263

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

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

(i) The property, plant and equipment of the Group for the years ended 31 December 2013 and 31 December 2012 are as follows (continued):

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

	2013	2012
Cost of sales	**4,504**	3,396
Research and development expenses	**4,846**	2,593
Distribution and marketing expenses	**3,783**	2,512
Administrative expenses	**1,393**	1,158
Deferred costs	**631**	–
	15,157	9,659

(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 2013 and 31 December 2012 are as follows:

	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Construction in progress	Total
Cost					
At 1 January 2012	76,556	2,824	2,217	4,205	85,802
Additions	26,065	2,652	–	18,997	47,714
Transfer from inventories	9,578	–	–	–	9,578
Transfer upon completion	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
Additions	**25,687**	**801**	**940**	**3,850**	**31,278**
Transfer upon completion	**464**	**329**	**–**	**(793)**	**–**
Disposals	**(4,291)**	**(820)**	**(909)**	**–**	**(6,020)**
At 31 December 2013	**139,190**	**5,099**	**2,248**	**8,773**	**155,310**
Accumulated depreciation					
At 1 January 2012	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
Charge for the year	**10,974**	**689**	**280**	**–**	**11,943**
Disposals	**(3,955)**	**(724)**	**(812)**	**–**	**(5,491)**
At 31 December 2013	**45,307**	**2,171**	**709**	**–**	**48,187**
Net book value					
At 31 December 2013	**93,883**	**2,928**	**1,539**	**8,773**	**107,123**
At 31 December 2012	79,042	2,583	976	5,716	88,317

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

17 TECHNICAL KNOW-HOW – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
Cost				
At beginning of the year	**4,623**	3,034	**2,976**	2,887
Additions	**660**	89	**626**	89
Capital contribution from non-controlling interests	**–**	1,500	**–**	–
At end of the year	**5,283**	4,623	**3,602**	2,976
Accumulated amortisation				
At beginning of the year	**2,978**	2,957	**2,851**	2,836
Charge for the year	**206**	21	**50**	15
At end of the year	**3,184**	2,978	**2,901**	2,851
Net book value				
At end of the year	**2,099**	1,645	**701**	125

(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 2013 and 31 December 2012 are as follows:

	Deferred development costs	Deferred costs of exclusive rights	Total
Cost			
At 1 January 2012	9,167	1,315	10,482
Capitalization of costs	1,182	–	1,182
At 31 December 2012	10,349	1,315	11,664
Capitalization of costs	**5,194**	**–**	**5,194**
At 31 December 2013	**15,543**	**1,315**	**16,858**
Accumulated amortisation			
At 1 January 2012	4,118	507	4,625
Charge for the year	967	255	1,222
At 31 December 2012	5,085	762	5,847
Charge for the year	**759**	**255**	**1,014**
At 31 December 2013	**5,844**	**1,017**	**6,861**
Net book value			
At 31 December 2013	**9,699**	**298**	**9,997**
At 31 December 2012	5,264	553	5,817

(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 2013 and 31 December 2012 are as follows:

	Deferred development costs	Deferred costs of exclusive rights	Total
Cost			
At 1 January 2012	6,286	1,315	7,601
Capitalization of costs	–	–	–
At 31 December 2012 and 31 December 2013	6,286	1,315	7,601
Accumulated amortisation			
At 1 January 2012	4,118	507	4,625
Charge for the year	967	255	1,222
At 31 December 2012	5,085	762	5,847
Charge for the year	**759**	**255**	**1,014**
At 31 December 2013	**5,844**	**1,017**	**6,861**
Net book value			
At 31 December 2013	**442**	**298**	**740**
At 31 December 2012	1,201	553	1,754

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

19 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2013	2012
Unlisted equity investments, at cost		
At beginning of the year	82,998	76,098
Additions (Note (a))	1,500	6,900
At end of the year	84,498	82,998
Impairment charge		
At 31 December 2013 and 2012	(3,885)	(3,885)
Net book value		
At end of the year	80,613	79,113

(a) On 5 November 2012, the Company established Tracing with Shanghai Uni Bio-technology Co., Ltd. and three individuals. The shareholding proportion was 56%, 38.99%, 1.67%, 1.67% and 1.67%, respectively. The registered capital of Tracing is RMB 15,000,000. The Company injected the remaining capital of RMB 1,500,000 in 2013. As at 31 December 2013, Tracing had received all the registered capital, including RMB 8,400,000 from the Company.

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

19 INVESTMENTS IN SUBSIDIARIES – COMPANY (continued)

As at 31 December 2013, the Company held the following investments in subsidiaries which are all limited liability companies:

Name	Place of incorporation, kind of legal entity 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. (上海摩根談國际生命科學中心有限公司)	PRC Limited liability company 31 August 1998	RMB 8,000,000	100	R&D of specialised bio-pharmaceutical projects and provision of related services in the PRC
Shanghai Ba Dian Medicine Co., Ltd. (上海靶點药物有限公司)	PRC Limited liability company 4 June 2003	RMB 15,000,000	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. (泰州复旦張江藥業有限公司)	PRC Limited liability company 13 March 2007	RMB 86,000,000	69.77	R&D of pharmaceutical projects and medical instruments and provision of related services in the PRC
Shanghai Tracing Bio-technology Co., Ltd. (上海溯源生物技術有限公司)	PRC Limited liability company 5 November 2012	RMB 15,000,000	56	R&D of medical diagnostic products, provision of related technical service and sales of general merchandise in the PRC

Material non-controlling interests

The total non-controlling interest as at 31 December 2013 is RMB 33,208,000, of which RMB 26,717,000 is for Taizhou Pharmaceutical and RMB 6,535,000 is attributed to Tracing. The non-controlling interest in respect of Ba Dian is not material.

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

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

19 INVESTMENTS IN SUBSIDIARIES – COMPANY (continued)

Material non-controlling interests (continued)

Summarised balance sheet

	Taizhou Pharmaceutical		Tracing	
	2013	2012	**2013**	2012
Current				
Assets	**33,478**	12,353	**7,416**	7,768
Liabilities	**(78,045)**	(25,469)	**(2,893)**	(143)
Total current net assets	**(44,567)**	(13,116)	**4,523**	7,625
Non-current				
Assets	**247,565**	220,965	**10,330**	5,808
Liabilities	**(54,628)**	(47,421)	**–**	–
Total non-current net assets	**192,937**	173,544	**10,330**	5,808
Net assets	**148,370**	160,428	**14,853**	13,433

Summarised statement of comprehensive income

	Taizhou Pharmaceutical		Tracing	
	2013	2012	**2013**	2012
Revenue	**38**	–	**5,069**	–
Loss before income tax	**(12,058)**	(2,285)	**(80)**	(66)
Income tax expense	**–**	–	**–**	–
Loss for the year	**(12,058)**	(2,285)	**(80)**	(66)
Other comprehensive income	**–**	–	**–**	–
Total comprehensive loss for the year	**(12,058)**	(2,285)	**(80)**	(66)
Total comprehensive loss attributable to non-controlling interests	**(3,645)**	(691)	**(32)**	(32)

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

19 INVESTMENTS IN SUBSIDIARIES – COMPANY (continued)

Material non-controlling interests (continued)

Summarised statement of cash flows

	Taizhou Pharmaceutical		Tracing	
	2013	2012	**2013**	2012
Cash flows from operating activities				
Cash generated from/(used in) operations	**17,164**	20,639	**783**	(6)
Interest paid	**(2,626)**	(2,752)	**–**	–
Net cash generated from/(used in) operating activities	**14,538**	17,887	**783**	(6)
Net cash used in investing activities	**(18,200)**	(61,556)	**(2,487)**	–
Net cash generated from financing activities	**24,000**	–	**–**	7,200
Net increase/(decrease) in cash and cash equivalents	**20,338**	(43,669)	**(1,704)**	7,194
Cash and cash equivalents at beginning of the year	**3,899**	47,568	**7,194**	–
Cash and cash equivalents at end of the year	**24,237**	3,899	**5,490**	7,194

The information above is the amount before intra-group eliminations.

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

20 INVESTMENT IN AN ASSOCIATE – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
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	RMB 20,400,000	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 loss of the associate are as below:

	Assets	Liabilities	Revenue	Comprehensive loss
2013	**14,099**	**15,769**	**–**	**(15)**
2012	2,024	3,694	–	(257)

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

21 DEFERRED INCOME TAX ASSETS – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
Deferred tax assets:				
– Deferred tax asset to be recovered after more than one year	**295**	174	**254**	155
– Deferred tax asset to be recovered within one year	**6,154**	4,370	**5,811**	4,166
	6,449	4,544	**6,065**	4,321
Deferred tax liabilities:				
– Deferred tax liabilities to be settled after more than one year	**–**	(66)	**–**	(66)
– Deferred tax liabilities to be settled within one year	**(66)**	(114)	**(66)**	(114)
	(66)	(180)	**(66)**	(180)
Deferred tax assets (net)	**6,383**	4,364	**5,999**	4,141

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

	Group		Company	
	2013	2012	**2013**	2012
At beginning of the year	**4,364**	2,235	**4,141**	2,235
Credited to income tax expense (Note 10)	**2,019**	2,129	**1,858**	1,906
At end of the year	**6,383**	4,364	**5,999**	4,141

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 RMB 56,417,000 and RMB 36,417,000 as at 31 December 2013 and 31 December 2012 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) – Group and Company

	Deferred development costs
At 1 January 2012	(301)
Credited to income tax expense	121
At 31 December 2012	(180)
Credited to income tax expense	114
At 31 December 2013	**(66)**

Deferred income tax assets (on gross basis) – Group

	Accruals	Provisions	Total
At 1 January 2012	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
Credited to income tax expense	1,784	121	1,905
At 31 December 2013	**6,154**	**295**	**6,449**

Deferred income tax assets (on gross basis) – Company

	Accruals	Provisions	Total
At 1 January 2012	1,773	763	2,536
Credited/(charged) to income tax expense	2,393	(608)	1,785
At 31 December 2012	4,166	155	4,321
Credited to income tax expense	1,645	99	1,744
At 31 December 2013	**5,811**	**254**	**6,065**

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

22 INVENTORIES – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
Raw materials	**5,663**	2,208	**3,938**	2,199
Production supplies and consumables	**194**	862	**–**	862
Work in progress	**7,252**	1,854	**7,252**	1,772
Finished goods	**2,459**	2,019	**1,638**	1,713
	15,568	6,943	**12,828**	6,546

During the year ended 31 December 2013, a provision of RMB 435,000 was made to inventories (2012: nil). The provision amount of RMB 435,000 was written off against the related inventory balances in 2013.

The cost of inventories recognised as expense and included in "Cost of sales" amounted to RMB 28,594,000 (2012: RMB 22,335,000).

23 TRADE RECEIVABLES – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
Accounts receivable (Note (a))	**64,832**	59,785	**61,524**	57,361
Less: Provision for impairment	**(1,756)**	(1,012)	**(1,593)**	(938)
Accounts receivable – net	**63,076**	58,773	**59,931**	56,423
Notes receivable (Note (b))	**3,910**	22,219	**3,910**	22,199
	66,986	80,992	**63,841**	78,622

As at 31 December 2013 and 2012, the fair value of the trade receivables approximated their carrying amounts.

As at 31 December 2013 and 2012, the carrying amounts of trade receivables are all denominated in RMB.

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

23 TRADE RECEIVABLES – GROUP AND COMPANY (continued)

(a) Accounts receivable are arisen from sales of products, with no interest charged. The credit period granted to customers is between 1 to 4 months. The ageing analysis of accounts receivable based on invoice date, before provision for impairment as at 31 December 2013 and 2012, are as follows:

	Group		Company	
	2013	2012	**2013**	2012
Accounts receivable – gross				
– Current	**55,315**	33,882	**53,397**	32,633
– Current to 30 days	**3,712**	21,312	**3,430**	20,833
– 31 days to 60 days	**1,674**	2,068	**1,198**	1,752
– 61 days to 90 days	**600**	340	**401**	126
– Over 90 days but less than one year	**2,231**	1,837	**1,874**	1,699
– Over one year	**1,300**	346	**1,224**	318
	64,832	59,785	**61,524**	57,361

As at 31 December 2013, trade receivables of RMB 9,517,000 (2012: RMB 25,903,000) were impaired and provided for. The amount of provision was RMB 1,756,000 (2012: RMB 1,012,000). As at 31 December 2013 and 2012, the accounts receivable ageing over one year were fully impaired.

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

	Group		Company	
	2013	2012	**2013**	2012
At beginning of the year	**1,012**	855	**938**	807
Provision for impairment of receivables	**769**	623	**680**	597
Receivables written off during the year as uncollectable	**(25)**	(466)	**(25)**	(466)
At end of the year	**1,756**	1,012	**1,593**	938

The creation and release of provision for impaired receivables have been included in "Administrative expenses" in the consolidated statement of comprehensive income (Note 6). Amounts charged to the provision account are generally written off against the receivable balances when there is no expectation of recovering additional cash.

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

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

23 TRADE RECEIVABLES – GROUP AND COMPANY (continued)

(b) Notes receivable are arisen from sales of products, with no interest and guarantee. They are all bank acceptance notes with maturities less than six months and have been fully settled after the year end.

24 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
Value-added tax recoverable	**7,462**	–	**–**	–
Prepayments	**7,206**	4,152	**6,557**	3,913
Advances to employees	**4,626**	3,263	**4,254**	2,693
Deposits	**157**	2,682	**103**	2,679
Others	**981**	621	**551**	22
	20,432	10,718	**11,465**	9,307

25 AVAILABLE-FOR-SALE INVESTMENTS – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
At beginning of the year	**–**	11	**–**	–
Additions	**–**	4,757	**–**	3,281
Fair value gains	**–**	10	**–**	–
Disposals	**–**	(4,778)	**–**	(3,281)
At end of the year	**–**	–	**–**	–
Listed equity investments in PRC, at fair value	**–**	–	**–**	–

26 AMOUNTS DUE FROM RELATED PARTIES – GROUP AND COMPANY

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

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

27 AMOUNTS DUE FROM SUBSIDARIES – COMPANY

The balances represent amounts due from subsidiaries Morgan-Tan, Taizhou Pharmaceutical, Ba Dian and Tracing, which are unsecured, interest free and repayable on demand.

28 CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
Cash at bank and on hand	**317,613**	150,995	**284,047**	136,859
Deposits in other financial institutions (Note (a))	**7,314**	7,272	**6,786**	6,746
	324,927	158,267	**290,833**	143,605
Cash and bank balances denominated in				
– RMB	**322,098**	158,267	**288,004**	143,605
– HKD	**2,829**	–	**2,829**	–
	324,927	158,267	**290,833**	143,605

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

The effective interest rate on cash placed with banks and deposits in other financial institutions is 0.35%-0.60% per annum for the year ended 31 December 2013 (2012: 0.35%-0.50%).

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

29 BORROWINGS – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
Non-current				
Long-term bank borrowings, secured (note (a))	**15,000**	15,000	**–**	–
Long-term bank borrowings, guaranteed (note (a))	**25,000**	25,000	**–**	–
Less: Current portion	**(15,000)**	–	**–**	–
	25,000	40,000	**–**	–
Current				
Short-term bank mortgage borrowings	**–**	38,500	**–**	38,500
Short-term bank credit borrowings	**–**	37,998	**–**	35,000
Current portion of long-term bank borrowings, secured	**15,000**	–	**–**	–
	15,000	76,498	**–**	73,500

(a) The long-term bank borrowings of RMB 40,000,000 are taken by Taizhou Pharmaceutical and bear an interest rate of 6.40%. Among the long-term bank borrowings, RMB 15,000,000 is secured by the leasehold land of Taizhou Pharmaceutical (note 15), and is due for repayment on 21 March 2014; the remaining RMB 25,000,000 is guaranteed by the Company, and is due for repayment on 20 March 2015.

The fair value of current borrowing approximate its carrying amount as the impact of discounting is not significant. The carrying amount and the fair value of non-current borrowings are as follows:

	Carrying amount		Fair value	
	2013	2012	**2013**	2012
Long-term bank borrowings	**25,000**	40,000	**25,000**	40,000

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 (2012: 6.40%) and is within level 2 of the fair value hierarchy.

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

29 BORROWINGS – GROUP AND COMPANY (continued)

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

	2013	2012
Within one year	40,000	40,000

As at 31 December 2013 and 2012, the Group's and the Company's borrowings were repayable as follows:

	Group		Company	
	2013	2012	2013	2012
Within 1 year	15,000	76,498	–	73,500
Between 1 and 2 years	25,000	40,000	–	–
	40,000	116,498	–	73,500

	Group		Company	
	2013	2012	2013	2012
Wholly repayable within 5 years	40,000	116,498	–	73,500

30 LOANS FROM GOVERNMENT AUTHORITIES

The loans from government authorities are repayable as follows:

	Group		Company	
	2013	2012	2013	2012
Current	–	10,000	–	–

On 22 November 2010, Taizhou Pharmaceutical entered into an entrusted loan contract with Jiangsu Science and Technology Department. Pursuant to the contract, loan of RMB 10,000,000 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.

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

31 DEFERRED REVENUE – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
Government grants	**40,962**	16,841	**4,690**	8,980
Exclusive rights	**5,833**	10,833	**5,833**	10,833
Cooperation Agreement with SPHCL (Note 5(a))	**10,517**	15,940	**3,096**	8,519
	57,312	43,614	**13,619**	28,332
Less: amount to be realised within one year	**(21,665)**	(29,542)	**(11,290)**	(20,999)
	35,647	14,072	**2,329**	7,333

(i) The deferred revenue of the Group for the years ended 31 December 2013 and 31 December 2012 are as follows:

	Government grants	Exclusive rights (Note 4)	Cooperation Agreement with SPHCL (Note 5)	Total
At 1 January 2012	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
Additions	**35,671**	**–**	**22,069**	**57,740**
Transfer to income	**(11,550)**	**(5,000)**	**(27,492)**	**(44,042)**
At 31 December 2013	**40,962**	**5,833**	**10,517**	**57,312**

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

31 DEFERRED REVENUE – GROUP AND COMPANY (continued)

(ii) The deferred revenue of the Company for the years ended 31 December 2013 and 31 December 2012 are as follows:

	Government grants	Exclusive rights	Cooperation Agreement with SPHCL	Total
At 1 January 2012	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
Additions	**5,880**	**–**	**7,181**	**13,061**
Transfer to income	**(10,170)**	**(5,000)**	**(12,604)**	**(27,774)**
At 31 December 2013	**4,690**	**5,833**	**3,096**	**13,619**

32 TRADE PAYABLES – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
Accounts payable (note (a))	**8,843**	34,742	**7,450**	34,458
Notes payable (note (b))	**–**	9,085	**–**	9,085
	8,843	43,827	**7,450**	43,543

As at 31 December 2013 and 2012, all trade payables of the Group were non-interest bearing, and their fair value approximate their carrying amounts due to their short maturities.

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

32 TRADE PAYABLES – GROUP AND COMPANY (continued)

(a) As at 31 December 2013 and 2012, the ageing analysis of accounts payable based on invoice date are as follows:

	Group		Company	
	2013	2012	**2013**	2012
– Current to 30 days	**7,924**	33,522	**6,531**	33,239
– 31 days to 60 days	**551**	730	**551**	730
– 61 days to 90 days	**4**	6	**4**	5
– Over 90 days but less than one year	**201**	267	**201**	267
– Over one year	**163**	217	**163**	217
	8,843	34,742	**7,450**	34,458

(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 SUBSIDIARY – COMPANY

As at 31 December 2012, the balance represents an amount due to Taizhou Pharmaceutical, a subsidiary of the Company and is unsecured, interest free and repayable on demand.

34 SHARE CAPITAL

Authorised, issued and fully paid:

	Number of shares (thousands)	Amount
At 1 January 2012 and 31 December 2012	710,000	71,000
Placing of H Shares (note (a))	142,000	14,250
Issuance of domestic restricted shares (note (b))	71,000	7,050
	923,000	92,300

34 SHARE CAPITAL (continued)

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

(b) 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 contributed 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, contributed directly to the overall business performance and sustainable development of the Group.

On 24 June 2013, the Company completed the grant of restricted shares under the initial grant and received the approval from, and completed the registration and filing procedures with the relevant authorities in the PRC. The Company granted 35,500,000 restricted shares to the scheme participants at the grant price of RMB 0.51 per restricted share pursuant to the restricted share scheme. Upon completion of the initial grant, the share capital of the Company was increased to RMB 88,750,000.

On 21 October 2013, the Company completed the grant of restricted shares under the second grant and received the approval from, and completed the registration and filing procedures with the relevant authorities in the PRC. The Company granted 35,500,000 restricted shares to the scheme participants at the grant price of RMB 0.51 per restricted share pursuant to the restricted share scheme. Upon completion of the second grant, the share capital of the Company was increased to RMB 92,300,000.

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

35 RESERVES – GROUP AND COMPANY

(i) The reserves of the Group attributable to shareholders of the Company for the years ended 31 December 2013 and 31 December 2012 are as follows:

	Capital accumulation reserve (Note a)	Statutory common reserve fund (Note b)	(Accumulated losses)/ Retained earnings (Note c)	Total
At 1 January 2012	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 changes on available-for-sale investments	7	–	–	7
At 31 December 2012	211,240	6,419	(65,431)	152,228
Profit for the year 2013	**–**	**–**	**87,218**	**87,218**
Appropriation to statutory reserve	**–**	**9,749**	**(9,749)**	**–**
Premium on shares issued less issuance costs	**200,971**	**–**	**–**	**200,971**
At 31 December 2013	**412,211**	**16,168**	**12,038**	**440,417**

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

35 RESERVES – GROUP AND COMPANY (continued)

(ii) The reserves of the Company for the years ended 31 December 2013 and 31 December 2012 are as follows:

	Capital accumulation reserve (Note a)	Statutory common reserve fund (Note b)	(Accumulated losses)/ Retained earnings (Note c)	Total
At 1 January 2012	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
Profit for the year 2013	**–**	**–**	**97,488**	**97,488**
Appropriation to statutory reserve	**–**	**9,749**	**(9,749)**	**–**
Premium on shares issued less issuance costs	**200,971**	**–**	**–**	**200,971**
At 31 December 2013	**315,985**	**16,168**	**120,049**	**452,202**

(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 investments 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 RMB 120,049,000 as at 31 December 2013 (2012: RMB 32,310,000).

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

36 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2013	2012
Profit before income tax	98,946	57,700
Adjustments for:		
Amortisation of leasehold land payments (Note 6)	106	106
Amortisation of deferred costs (Note 18)	1,014	1,222
Amortisation of technical know-how (Note 17)	206	21
Provision for impairment of receivables (Note 23)	769	623
Provision for impairment of inventories (Note 22)	435	–
Depreciation of property, plant and equipment (Note 16)	14,526	9,659
Gains on investments in financial products (Note 5)	(2,152)	–
Gains on disposal of available-for-sale investments (Note 5)	–	(891)
Losses on disposal of property, plant and equipment – net (Note 5 and Note 6)	388	4,504
Interest expenses (Note 7)	5,440	6,166
Interest income (Note 5)	(1,957)	(905)
Changes in working capital:		
– Trade and other receivables and amounts due from related parties	10,086	(25,671)
– Inventories	(9,060)	779
– Trade and other payables	(25,361)	63,875
– Deferred revenue	13,698	6,377
Cash generated from operations	107,084	123,565

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

	2013	2012
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)

37 RELATED PARTY TRANSACTIONS

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2013 and 2012.

(i) Transactions

	2013	2012
With SPDCL:		
Sales of medical products	**13,869**	12,687
With SPHCL:		
Cash received under the Cooperation Agreement	**26,653**	28,525
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 2013 and 31 December 2012 are disclosed in Note 26 and Note 31.

(iii) The restricted share scheme the Company adopted during the year ended 31 December 2013 is disclosed in Note 34.

(iv) Key management compensation:

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

	2013	2012
Basic salaries and allowances	**4,730**	4,235
Bonus	**4,000**	2,300
Retirement benefit and social security costs	**491**	452
	9,221	6,987

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

38 SEGMENT INFORMATION

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

In recent years, the Group has been focusing on the commercialization of its own drugs after research and development, and has not entered into any technology transfer contract since 2005. In the future, the outcomes of the Group's research and development activities will only be used by the Group for its own commercialization. As a result of the strategic shift in its business focus, the Group only received and recognised a royalty payment of RMB 78,000 as the revenue generated from technology transfer in 2013 and expects no further technology transfer revenue will be generated in 2014 and beyond. Accordingly, unlike for the year 2012, the Group only operates a single business segment in 2013 and hence no segment information is presented for the year 2013.

The Group's revenue is principally derived in the PRC.

	Year ended 31 December 2012		
	Research and development activities	Sales of medical products	Total
Revenue	1,647	230,880	232,527
Segment profit	2,739	76,199	78,938
Unallocated income			1,819
Unallocated costs			(23,057)
Profit before income tax			57,700
Income tax expense			(5,264)
Profit for the year			52,436

Note: Unallocated income and unallocated costs mainly represent other income received and general and administrative expenses incurred by the Group during the year that is 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)

38 SEGMENT 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)	(53,979)	(277,183)
Net	(66,900)	231,086	95,927	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

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

Revenues of approximately RMB 213,995,000 (2012: RMB 72,083,000) are derived from a single external customer. These revenues are attributable to the sales of medical products.

39 COMMITMENTS

(i) Operating lease commitments

As at 31 December 2013 and 2012, the Group had future aggregate minimum lease payments due under non-cancellable operating leases in respect of properties as follows:

	2013	2012
No later than 1 year	**549**	102
Later than 1 year and no later than 5 years	**617**	–
	1,166	102

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

39 COMMITMENTS (continued)

(ii) Capital commitments

Capital expenditure contracted for as at 31 December 2013 and 2012 but not yet incurred are as follows:

	2013	2012
Property, plant and equipment	**1,313**	20,159

40 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 2013 and 31 December 2012.

(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. 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. The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 29.

40 FINANCIAL RISK MANAGEMENT (continued)

(i) Financial risk factors (continued)

(a) Market risk (continued)

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

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 2013, if interest rates on borrowings had been 10% higher/lower with all other variables held constant, post-tax profit for the year would have been RMB 192,000 (2012: 10%, RMB 192,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

(b) Credit risk

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

(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.

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

40 FINANCIAL RISK MANAGEMENT (continued)

(i) Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Group					
At 31 December 2013					
Bank borrowings	**15,240**	**27,000**	**–**	**–**	**42,240**
Trade and other payables	**55,038**	**–**	**–**	**–**	**55,038**
At 31 December 2012					
Bank borrowings	81,248	16,840	25,400	–	123,488
Loans from government authorities	10,030	–	–	–	10,030
Trade and other payables	70,617	–	–	–	70,617
Company					
At 31 December 2013					
Trade and other payables	**49,369**	**–**	**–**	**–**	**49,369**
At 31 December 2012					
Bank borrowings	75,621	–	–	–	75,621
Trade and other payables/ Amount due to a subsidiary	77,443	–	–	–	77,443

(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.

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

40 FINANCIAL RISK MANAGEMENT (continued)

(ii) Capital risk management (continued)

The gearing ratios at 31 December 2013 and 2012 were as follows:

	2013	2012
Total borrowings (Notes 29 and 30)	40,000	126,498
Less: Cash and cash equivalents (Note 28)	(324,927)	(158,267)
Net debt	(284,927)	(31,769)
Total equity	565,925	260,113
Total capital	280,998	228,344
Gearing ratio	-101%	-14%

The decrease in the gearing ratio during 2013 resulted primarily from the profit of the year, repayment of borrowings, the H Shares placing and issue of restricted shares (Note 34).

(iii) Fair value estimation

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

The carrying amounts of the Group's cash and bank balances, trade receivables, amounts 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.

41 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 26 March 2014.