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 2014

* For identification purpose only

Contents

CORPORATE INFORMATION 2

FIVE YEARS FINANCIAL DATA HIGHLIGHTS 4

CHAIRMAN'S STATEMENT 5

MANAGEMENT DISCUSSION AND ANALYSIS 15

REPORT OF THE DIRECTORS 20

REPORT OF THE SUPERVISORY COMMITTEE 30

REPORT OF AUDIT COMMITTEE 31

REPORT OF REMUNERATION COMMITTEE 33

REPORT OF NOMINATION COMMITTEE 35

CORPORATE GOVERNANCE REPORT 36

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT 56

INDEPENDENT AUDITOR'S REPORT 61

CONSOLIDATED FINANCIAL STATEMENTS

- CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 63
- CONSOLIDATED BALANCE SHEET OF THE GROUP AND BALANCE SHEET OF THE COMPANY 64
- CONSOLIDATED STATEMENT OF CASH FLOWS 66
- CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 67
- NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 68

Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Ke Ying
Shen Bo
Yu Xiao Yang
Fang Jing (Resigned on 30 May 2014)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Zhou Zhong Hui
Lam Yiu Kin
Chen Kai Xian (Appointed on 30 May 2014)
Pan Fei (Resigned on 30 May 2014)
Cheng Lin (Resigned on 30 May 2014)

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

AUTHORISED REPRESENTATIVES

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

AUDIT COMMITTEE

Lam Yiu Kin *(Chairman)*
Shen Bo
Chen Kai Xian

REMUNERATION COMMITTEE

Zhou Zhong Hui *(Chairman)*
Lam Yiu Kin
Chen Kai Xian

NOMINATION COMMITTEE

Wang Hai Bo *(Chairman)*
Zhou Zhong Hui
Chen Kai Xian

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 Branch
Bank of Nanjing, Taizhou Branch

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LISTING INFORMATION

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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				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**470,900**	415,925	232,527	133,890	92,390
Operating profit	**129,960**	108,360	63,866	42,489	6,932
Finance costs	**(1,861)**	(9,414)	(6,166)	(4,862)	(2,946)
Profit before income tax	**128,099**	98,946	57,700	37,627	3,986
Income tax expense	**(17,605)**	(15,405)	(5,264)	(5,255)	(2,801)
Profit for the year	**110,494**	83,541	52,436	32,372	1,185
Profit attributable to:					
Shareholders of the Company	**118,258**	87,218	53,159	30,826	3,681
Non-controlling interests	**(7,764)**	(3,677)	(723)	1,546	(2,496)
Total comprehensive income for the year	**110,494**	83,541	52,446	32,362	1,185
Total comprehensive income attributable to:					
Shareholders of the Company	**118,258**	87,218	53,166	30,819	3,681
Non-controlling interests	**(7,764)**	(3,677)	(720)	1,543	(2,496)
EBITDA	**155,748**	124,212	74,874	49,313	13,972
Basic and diluted earnings per share for profit attributable to the shareholders of the Company	**RMB 0.1281**	RMB 0.1009	RMB 0.0749	RMB 0.0434	RMB 0.0052

ASSETS AND LIABILITIES

	As at 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**824,481**	749,216	537,296	358,881	304,154
Total liabilities	**(148,062)**	(183,291)	(277,183)	(157,814)	(135,449)
	676,419	565,925	260,113	201,067	168,705
Capital and reserves attributable to shareholders of the Company	**650,975**	532,717	223,228	170,062	139,243
Non-controlling interests	**25,444**	33,208	36,885	31,005	29,462
	676,419	565,925	260,113	201,067	168,705

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 2014 for consideration by the shareholders.

DEVELOPMENT CONCEPTS AND OBJECTIVE

With the ultimate goal to stay as an innovator in the bio-pharmaceutical industry, the Group is committed to developing novel and more effective treatments/medicines to meet the unmet needs of clinical and patients treatment and the demand of improvement, so as to realize our mission that "The More We Explore, the Healthier Human Beings Will Be".

RESEARCH STRATEGY, REVIEW AND PROSPECTS

During the period under review, the Group has committed to developing new medicines and innovative treatments to tackle selected diseases based on the better understanding of the cause of the diseases by genetic background and molecular mechanism analysis. Our three research and development platforms, namely, genetic engineering, photodynamic-tech and nanotech, have laid solid foundation for our drug development mode. In addition, our diagnostics business unit has been further strengthened to define a clear development direction.

The years of 2013 and 2014 have witnessed the inspiring breakthroughs and innovations in drug discovery and medical treatments, and it reinforced our long-held belief on research and development strategy that personalized medicine research and development should be the norm rather than the exception. Today researches on non-mainstream personalized treatment of certain complicated diseases, such as cancers, autoimmune disorder, skeletal diseases and neurodegenerative diseases, have attracted considerable attentions and investments. It is recognized that the one-dimensional knowledge of drugs based on point-to-point treatment has been developed towards multi-dimensional control based on multiple target point dynamic process.

The process of drugs discovery and development has been greatly re-shaped by the advances in DNA sequencing and bio-molecular technology, such as Next Generation Screening ("NSG") and Clustered Regularly Interspaced Short Palindromic Repeats ("CRISPR"). A new way for drug discovery and development, namely Integrated and Collective Scientific Drug Development, is spearheaded by the Group together with top researchers, scientists and medical specialists. Our research cohort is to assemble and analyze the existing know-how, information, data and technologies related to the selected diseases, to study generic mutation and abnormal of cell signaling pathways, to find biological targets and identify valid biomarkers, and ultimately to transfer the findings into clinic treatment. The Integrated and Collective Scientific Drug Development model will optimize the process of identifying and validating clinically relevant disease targeted for drug design, further improve the Group's research and development capability, and bring new directions, opportunities and enduring benefits to the Group.

At present, the Group has been applying this research model with several world-class laboratories on skeletal diseases, Alzheimer's disease and liver cancer. We already began to conduct such researches on regulating osteoarthritis and osteoporosis drugs based on studying the special factors in wnt signaling pathway and hedgehog signaling pathway. We started to explore the interaction mechanisms between βandγenzyme which generated Aβ in order to find candidate drugs for the treatment of Alzheimer's disease. We also made research on the treatment of liver cancer by intervention of Hippo, Wnt/-catenin and Notch. We will closely follow the progresses made by "Accelerating Medicines Partnership (AMP)" to make our research more efficient and successful. The AMP is a joint effort between the NIH (National Institution of Health), 10 global biopharmaceutical corporations and non-profit organizations including Alzheimer's disease association and American Diabetes Association, and etc., with the goal of developing new diagnostics and treatments by jointly identifying and validating promising biological targets of disease. AMP is launched in 2014 and is focused on three disease areas, namely type 2 diabetes, rheumatoid arthritis and lupus, with the initial investment of USD 230,000,000.

The rich experience gained from clinicians and their practice are highly valued in the process of drug design and development for complicated diseases such as cardiovascular and dermal disease. The Group believes that the key to successful translational medicine research is to tightly integrate scientific research, clinical practice and drug discovery development. Currently, the Group is cooperating with clinicians at home and abroad on liposome drug containing special gas for stroke treatment and expects to get substantial progress. We also explore the treatment to all kinds of difficult dermatology with helps from clinicians to develop several photodynamic drugs, some of which are under development. The Group has also launched a study with hematological clinicians to design drugs specially to treat bleeding caused by low platelet hemostatic, which has vast clinical significance in China due to the lack of component blood transfusion in clinical practices.

GENETIC TECHNICAL PLATFORM

We will pay constant attention to the ability on building genetic technical platform. We realized that gene technology in terms of signaling pathways control, suppress or strengthen the protein activity, will become the core technology in the area of new drugs development, especially when the research bases on the most fundamental and specific causes and molecular mechanism of diseases. We have copied antibody drugs almost the same as the originator drugs successfully. Severe consistency of drug development we are pursuing can help drugs launch for sale earlier (apply as Bio-similar drugs) and can transfer to the capability of antibody-drugs development. We are researching on the crosslinking technology of antibody-drug conjugate drugs, which would push this kind of key protein drugs entering into clinical research in China. Furthermore, the exploring research on the antibody designed for liver cancer based on metabolic mechanism which the scientists newly discovered, and on the antibody treatment of connective tissue disease is under progress. To keep the balance of development and meet the requirements of therapy in China, the Group will continue in making effort on pushing the projects which have entered into clinical trial. We will try to realize the commercialization of protein drugs as early as we can.

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

The clinical trial approval for high bio-activity recombinant human TNF receptor (重組親和力TNF受體) for the treatment of arthritis has been obtained in May 2014, and the project has entered into clinical trial phase I. The drug is mainly used to treat self-immunological diseases, such as arthritis. The size of potential market is enormous. The Group holds independent intellectual property right ("IPR") of the drug and has applied for PCT patent. It will be one of the key research and development projects of the Group.

Phase I clinical trial of PTH (重組人甲狀旁腺激素) for the treatment of osteoporosis has been completed. Clinical trial phase II application is estimated to be submitted on the second half of year 2015. At the same time, indication of osteoarthritis was also in the research.

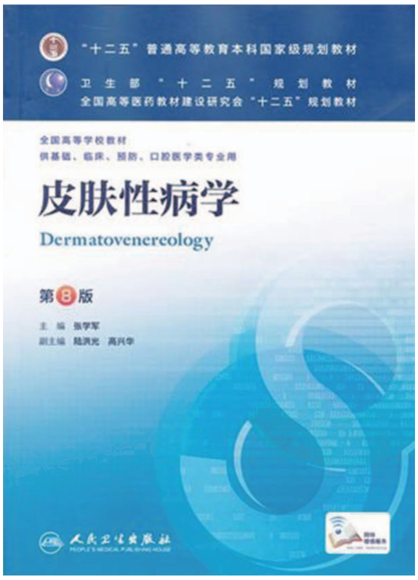
The antibody-drug conjugate drugs have shown obvious advantages on tumor treatment in clinical trials, which is much better than the effect of the conventional antibody plus chemotherapy drugs. In order to follow the development trend in bio-pharmaceutical area, CD30-MMAE for the treatment of tumors has entered into pre-clinical study. During the period under review, the project was elected in the 4th list of the 12th five-year Key New Drugs Creation for Key Science and Technology project and obtained national financial aid. 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 has been expanding the drugs development based on photodynamic technical platform. Photodynamic drugs will become the most important product pipeline of the Group. We will continue to exert its feature of “one drug, several indications” and becoming a new scalpel for clinical treatment so that according to the treatment principle of photodynamic drugs, we will design special therapy for some precancerous lesions which cannot be treated or intervened for the moment. The Group is commencing further research on molecular mechanism and their mode of action in order to discover new photodynamic compound to improve the efficacy and overcome the defects. The Group is cooperating with other institutions to develop new laser and new LED photodynamic equipment. We will apply for the international registrations for the launched drugs, which will lay a foundation for the commercialization development of the Group. We believe that photodynamic drugs will become the first choice for the treatment of certain diseases based on the initial set up of photodynamic software and hardware repository and the Group’s research and development experiences on photodynamic drugs over a long period of time. We have the confidence to become the global leader in photodynamic drugs development area and are willing to make contributions to make photodynamic drugs be used more widely.



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

As the first commercialization project of the Group, the therapy of Aminolevulinic Acid Hydrochloride combined with photodynamic technology 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 research and development projects of the Group.

Several years after it was launched to the market, ALA (艾拉®), the first photodynamic drug for the treatment of condyloma acuminate in the world, has become the preferred choice in this area. The therapy of ALA combined with photodynamic technology initiated by the Company was recorded in the 8th edition of Dermatovenercology (published in March 2013) and relevant clinical treatment guidance. During the period under review, ALA (艾拉®) has been certified as state strategic innovative product under national key new product plan of Ministry of Science and Technology.

Aminolevulinic Acid Hydrochloride used for the treatment of CIN infected by HPV has entered into clinical trial phase II. Currently the cause of the disease is known but there is no effective intervention or therapy for it. Our product will be the first therapy of precancerous lesion. New indications of adjuvant therapy with Aminolevulinic Acid Hydrochloride for brain gliomas and treatment for basal cell carcinoma are entering into pre-clinical study. Aminolevulinic Acid Hydrochloride used for the treatment of moderate and severe acne has submitted clinical trial application during the period under review.

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. The Group has obtained the New Drug Certificate issued by the State Food and Drug Administration and completed all the trial production and preparation work for sale. During the period under review, drug registration application has been submitted and it is required to further obtain the drug approval number and GMP Certificate. It is estimated to launch for sale in 2015.

During the period under review, the research and development projects of Aminolevulinic Acid Hydrochloride used for the treatment of CIN infected by HPV and clinical trial phase IV of Hemoporfin after launching for sale were elected as " Research and development project of key variety of photodynamic creative drugs " of the 12th five-year Key New Drugs Creation for Key Science and Technology project and obtained national financial aid.

Duteroporphyrin (多替泊芬) for the treatment of tumors has entered into the clinical trial phase II.

NANO TECHNICAL PLATFORM

The Group will further develop new drugs based on the platform of preparation technology of nano drugs including intravenous liposome nano drugs, oral Granular drug to improve bioavailability and slow-release drugs for skin health management. 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 a new doxorubicin formula which adopts the advanced stealth liposomal encapsulation technology and has passive targeting characteristics. It is a new generation of replacement for anthracycline drugs. In oncology, it has the advantages of enhancing efficacy and remarkably lowering the effects of cardiac toxicity, myelosuppression and hair-loss. LIBod® is used for the treatment of AIDS-relating Kaposi's sarcoma, breast cancer and ovarian cancer. Registration for the drug is being carried out in the United States ("U. S.") taking into account the tremendous market capacity of breast cancer and the Group has obtained the approval from U.S. Food and Drug Administration ("FDA") for clinical research. The bioequivalence trial for the first patient started from September 2014. After the bioequivalence trial, the Company will be required to further obtain the verification of good quality management system of our production plant by FDA before the drug can be launched to the market.

Vincristine sulphate liposome (LVCR) for the treatment of malignant tumors has completed clinical trial phase I. The Group cautiously decided to transfer this project to a third party pharmaceutical company based on the consideration of its future prospect, production conditions and payback period, etc. During the period under review, the transfer agreement has entered into execution stage.

Nanoparticle Albumin-bound Paclitaxel (紫杉醇白蛋白納米粒) for the treatment of tumors, has entered into pre-clinical study. During the period under review, the reform of existing production line for this project got under way.

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, and planned to push the "rapid, quantitative detection system" as starting point of entering into clinical medical market to develop the molecular diagnostic technique based on the technology of adapter body as technical reserves. This platform will focus on the specialized market of grassroots medical, obstetrics and neonatal unit, which can become the significant component of the industry layout of the Group in the area of diagnosis technology. We will make full use of the new technology in the fields with low barriers and low cost such as food safety inspection and animal disease inspection and then to introduce it into clinical application field with low risk when it is mature at the appropriate time, which is a new creative mode in vitro diagnostic reagents of the Group.

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 Down's syndrome testing relying on the brand image and market share in the field of birth defects screening.

The Group continues to explore and hope our efforts can provide useful help for the patients and be of value to investors. The Group will try to make the medium and long-term plans of research and development, which conforms to the development of the Group, but we will still face significant risks and challenges.

By the end of the year 2014, the major drugs under research and development 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; the transferee has obtained the letter of approval for drug registration
	Recombinant human lymphotoxin α-derivatives (LT)	Tumor	Clinical trial phase II completed; stopped moving forward; discuss new plan
	Recombinant human tumor necrosis recipient Fc fusion protein (Etanercept)	Arthritis	Domestic and overseas rights transferred respectively
	rhTNFR(m):Fc (High bio-activity recombinant human TNF receptor 2-Fc fusion protein mutant高親和力重組人腫瘤壞死因數受體突變體-Fc融合蛋白)	Arthritis	Clinical trial phase I
	PTH (重組人甲狀旁腺激素)	Osteoporosis	Clinical trial phase I Completed
	CD30-MMAE	Tumor	Pre-clinical study
	Anti-sclerostin mab (骨硬化蛋白抗體)	Osteoporosis	Pre-clinical study
	PCSK9	Hypercholesterolemia	Pre-clinical study
	Avastin	Tumor	Pre-clinical study
Photodynamic technique	Hemoporfin (海姆泊芬)	Port wine stain	Applied for production approval and the certificate of GMP, plan to launch for sale in 2015
	Deuteroporphyrin (多替泊芬)	Tumors	Clinical trial phase II
	Aminolevulinic acid	Cervical diseases infected by HPV	Clinical trial phase II
	Aminolevulinic acid	Acne	Clinical trial application has been submitted
	Aminolevulinic acid	Brain gliomas	Pre-clinical study
	Aminolevulinic acid	Basal cell carcinoma	Pre-clinical study
Nano technique	Doxorubicin liposome (鹽酸多柔比星脂質體)	Tumors	Registered in USA, Bioequivalence trial
	Vincristine sulphate liposome (LVCR)	Tumors	Clinical trial phase I completed, transferred to the third party pharmaceutical company
	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

In February 2011, the Company entered into the strategic cooperation agreement with Shanghai Pharmaceuticals Holding Co., Ltd. ("Shanghai Pharmaceuticals") for the cooperation on innovative pharmaceutical 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. This agreement was renewed to the end of 2016 from 2013. During the year 2014, the agreement was enforced as stipulated and research and development work was performed in order. The transfer of Vincristine sulphate liposome was decided based on the agreement with Shanghai Pharmaceuticals.

COMMERCIALIZATION STRATEGY, REVIEW AND PROSPECTS

During the period under review, product sales revenue of the Group increased by 12% compared with that of last year.

ALA (艾拉®) which is indicated for the treatment of dermal HPV infectious disease and proliferative disease as represented by condyloma acuminate launched to the market in 2008. As the first photodynamic drug in China, ALA can selectively spread and accumulate in condyloma acuminatum cells, and kill them together with specific wavelength light and energy, which does not result in adverse effects on surrounding normal tissues at the same time. Due to the feature of this kind of therapy, ALA also has effects on the treatment of subclinical infection and latent infection. Compared with traditional therapy, the therapy of ALA combined with photodynamic technology, filled in the blanks in the treatment of urethral orifice condyloma acuminate. In addition, our therapy has the advantages such as better tolerance of patient, higher safety, non-scar, lower adverse reaction and much lower recurrence rate comparing with previous average level. ALA has become one of the largest consumed skin-sure drugs. During the period under review, ALA has been certified as national strategic innovative product in national key new product plan of the Ministry of Science and Technology. The competition covered all kinds of industries and three projects in Shanghai were selected in 2014. ALA is one of them.

Eyan (易妍®), makeup product for the treatment of acne was launched for sale in the second half of 2010. The Group submitted the clinical trial application for the indication of moderate and severe acne. According to the strategic consideration, the sale of Eyan was suspended from the second half of the year.

LIBod® (里葆多®) for the treatment of tumors, was launched for sale in August 2009 and it has brought favorable market response. Recently, it becomes the only Doxorubicin Hydrochloride Liposome Injection that successfully won the bid for becoming an admitted product for insured critical illness in Zhejiang Province with a term of two years commencing from 1 January 2015 to 1 January 2017. In order to increase the market promotion and sales of LIBod®, the Company signed the "Sole Agency Agreement" with NT Pharma (Jiangsu) Co., Ltd. ("Jiangsu Tailin") in February 2011 and granted it the exclusive distribution rights of LIBod®. The agreement expired by the end of February in 2015 and the Company entered into a new agency agreement with Jiangsu Tailin in March 2015. As compared with last year, its revenue increased by 25% in 2014. It is still expected to make big contribution to the sales revenue of the Group in future.

FuMeiDa (the proposed brand name of Hemoporfin), the first photodynamic drug for the treatment of Port Wine Stain, is a new drug with new target, new compound and new indication. The Group has obtained new drug certificate issued by China Food and Drug Administration and completed production trail. The Group is required to further obtain the drug approval number and pharmaceutical GMP certificate ("GMP Certificate") etc. before FuMeiDa can be launched to the market. It is estimated to be launched to market in 2015.

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 started to make preparation of applying for the certification of U.S. FDA 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 on Wechat integrated with academic exchange, clinical case sharing, standard practice video, Q&A between doctors and patients, etc. More than 13,000 dermatologists have joined photodynamic technology We-chat 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 Fudan-Zhangjiang Pharmaceutical Co., Ltd ("Taizhou Pharmaceutical") has constructed two production lines for the material and injection of Hemoporfin. To make the two production lines at full capacity, 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 research and development to equal stress on both research and development and commercialization with a complete system featuring organic combination of research and development, product manufacturing and marketing. The Group is moving toward a virtuous stage of development.

By the end of the year 2014, the commercialized projects of the Group are summarized as follows:

Technical platform	Project name	Indications	Launching time
Photodynamic technique	ALA®	Condyloma acuminate	2007
	FuMeiDa®	Port wine stain	Estimated in 2015
Nano technique	LIBod®	Tumors	2009
Others	Antenatal screening diagnostic reagent, analysis software and equipment including Beixi®, Beiyou	Down's syndrome	Launched already except for the new type reagent in 2014

INTELLECTUAL PROPERTY RIGHTS

The Group has been actively protecting its intellectual property rights on its innovative medicines and research achievements. During the reporting period, the Group applied for 2 invention patent, and has been granted 5 invention patents both domestic and overseas (Japan). By the end of the year 2014, the Group has cumulatively applied for 63 invention patents, and has been granted 39 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 research and development 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 Science and Technology Project amounting to RMB 5,827,000 in total. An amount of RMB 1,105,000 has been received during the period under review. As at 31 December 2014, the Company has received RMB 5,352,000 accumulatively. The project has also obtained the matching grant from Shanghai government amounting to RMB 11,654,000 in total. During the period under review, the Company has received RMB 8,317,200.

Key New Drugs Creation "Research and Development of Key Variety of Photodynamic Creative Drugs" obtained financial aid of the 12th five-year National Special Grant for Key Science and Technology Project amounting to RMB 11,160,900 in total. As at 31 December 2014, the Company has received RMB 4,562,500.

As the lead unit of Key New Drugs Creation "Core Technology Buildup and Product Development of Antibody Conjugate Drugs", the Company obtained financial aid of the 12th five-year National Special Grant for Key Science and Technology Project amounting to RMB 6,130,000 in total. As at 31 December 2014, the Company has received RMB 2,435,900.

During the period under review, the Company has been recognized as Shanghai Enterprise Technology Center ("SETC") and applied for the project of SETC capability development. The financial aids for technology development from Shanghai economic and information technology committee amounted to RMB1,200,000.

After certified as "Top 10 Innovative Corporation of Shanghai Hi-tech Achievement Transfer Projects in 2012", ALA® has been certified as national strategic innovative product in national key new product plan of the Ministry of Science and Technology during the period under review and the Ministry of Science and Technology granted RMB 2,000,000. As at 31 December 2014, the Company has received all the grants.

Doxorubicin Hydrochloride Liposome Injection (LIBod®) has been certified as "Top 100 of Shanghai Hi-tech Achievement Transfer Projects in 2013".

During the period under review, the Company was selected by 2014 Forbes Asia as one of the "Best Under A Billion" corporations.

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
24 March 2015

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 of the Group and the related notes to the consolidated financial statements for reference.

REVENUE

The Group's consolidated revenue for the year 2014 amounted to approximately RMB 470,900,000, comparing to RMB 415,925,000 for the year 2013, representing an increase of 13%.

The total revenue for the year 2014 mainly came from the sale of medical products, revenue recognized from exclusive distribution rights and the revenue from technology transfer. The source of total revenue for the year 2014 was the same as for the year 2013.

Revenue from sale of medical products

Revenue of the Group from the sale of medical products for the year 2014 was RMB 460,455,000 (or 98% of the total revenue), increased by 12% from that of last year which was RMB 410,847,000. The major products of the Group, ALA®(鹽酸氨酮戊酸，ALA) and LIBod®(鹽酸多柔比星脂質體，Doxorubicin liposome), have contributed 39% and 57% 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 total consideration was RMB20,000,000, of which, an amount of RMB 5,000,000 (or 1.1% of the total revenue) was recognized as revenue in 2014. The amount recognized for the year 2013 was RMB 5,000,000.

Revenue from technology transfer

Revenue from technology transfer for the year 2014 was RMB 5,445,000. It is the revenue recognized from the two technology transfers (Vincristine Sulphate Liposome 硫酸長春新城脂質體 and Amphotericin B Liposome 兩性黴素B脂質體) by the Company to a third party pharmaceutical company.

COST OF SALES

For the year 2014, cost of sales of the Group was RMB 36,821,000, while the corresponding figure for 2013 was RMB 32,407,000. The ratio of cost of sales to revenue from sale of products raised to 8.0% from the level of 7.9% for last year, and remains generally stable. The increase of costs was mainly due to the increase in sales of LIBod® of the Group in 2014.

OPERATING PROFIT

For the year 2014, operating profit of the Group was RMB 129,960,000, comparing to the operating profit of RMB 108,360,000 for the year 2013, representing an increase of 20%.

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

- Other income for the year 2014 was RMB 81,770,000, compared with RMB 46,417,000 for the year 2013, representing an increase of 76%, mainly due to a strategic cooperation agreement for innovative pharmaceuticals research and development ("the Strategic Cooperation Agreement") signed by the Group with Shanghai Pharmaceuticals, according to which related income recognized increased to RMB 40,029,000 in the year 2014 (2013: RMB 27,492,000). Moreover the government grant income recorded in the year 2014 increased to RMB 33,173,000 (2013: RMB 14,731,000).

- Research and development costs for the year 2014 were RMB 105,071,000, compared with RMB 68,108,000 for the year 2013, representing an increase of 54%. It is mainly because the Group has launched several new research projects and some projects have been put into clinical trial.

- Distribution and marketing costs for the year 2014 were RMB 258,025,000, compared with RMB 232,057,000 of the year 2013, representing an increase of 11%. The distribution and marketing costs grew in line with the increase in revenue for sale of medical products. The growth rate is near to that of revenue from sale of medical products. The ratio of distribution and marketing costs to revenue for sale of products decreased to 56.0% from 56.5% for last year, and remains generally stable.

- Administrative expenses for the year 2014 were RMB 22,650,000, compared with RMB 20,772,000 for the year 2013, representing an increase of 9%. It is mainly due to the increases in payroll, welfare and bonus.

- Other operating expenses for the year 2014 were RMB 143,000, compared with RMB 638,000 for the year 2013, representing a decrease of 78%. The amounts of last year were mainly the losses related to the fixed assets and donation expense and such expenditure is much less in 2014.

FINANCE COSTS

For the year 2014, finance costs of the Group was RMB 1,861,000, compared with RMB 9,414,000 for the year 2013, representing a decrease of 80%. It is mainly due to the less interest expenses because the Company continued to repay bank loans in 2013 and 2014. Moreover, Hong Kong dollars derived from the placement of H shares of the Company in 2013 were almost converted into Renminbi in 2014, therefore the loss in exchange decreased.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company of RMB 118,258,000 was recorded in the consolidated financial statements for the year 2014, compared with that of RMB 87,218,000 for the year 2013, representing an increase of 36%.

The profit attributable to shareholders of the Company of RMB 108,408,000 was recorded in the financial statements of the Company for the year 2014, compared with that of RMB 97,488,000 for the year 2013, representing an increase of 11%.

SIGNIFICANT INVESTMENTS

The Board approved to establish a joint venture named De Mei Zhen Lian Co., Ltd.* (德美診聯有限公司) ("De Mei Zhen Lian", the proposed name is subject to the approval from the department of industry and commerce) by the Company and independent third parties, including Zhong He Hou De Investment Management Co., Ltd.* (中和厚德投資管理有限公司) ("Zhong He Hou De") in China (Shanghai) Pilot Free Trade Zone. De Mei Zhen Lian will make investment to establish and operate nationwide skin beauty chain clinics, by taking advantage of the brand effect and market share of the Company in the skin beauty field of medical market. As at 31 December 2014, the final cooperation agreement had not been entered into.

Saved as disclosed above, the Company had no other significant investments as at 31 December 2014.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Board approved to enter into the share transfer agreement with the three original shareholders of Shanghai Youni Bio-tech Co. Ltd.("Youni Bio-tech"), namely Mr. Liang Jun, Mr. Zhang Yulin and Mr. Huang Xiaojin, (as the vendors) on 12 December 2014, pursuant to which the Company had conditionally agreed to acquire and the vendors had conditionally agreed to sell the shares in Youni Bio-tech representing 90% of the total registered share capital of Youni Bio-tech at a cash consideration of RMB22,500,000 (equivalent to approximately HK$28,125,000) in aggregate. Youni Bio-tech is a biotechnology company that is principally engaged in the research and development, manufacture and sales of reagents for food safety detection. Details of this transaction were set out in the announcement issued by the Company on 12 December 2014. The share transfer was completed in January 2015.

Saved as disclosed above, the Company had no material acquisitions or disposals of subsidiaries and associated companies as at 31 December 2014.

CONTINGENT LIABILITIES

As at 31 December 2014, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

As at 31 December 2014, the Group did not have any charge on assets.

BANKING FACILITIES

On 21 March 2011, the bank borrowing of RMB 25,000,000 was taken by Taizhou Pharmaceutical Co., Ltd., a subsidiary of the Group, and bore an interest rate based on the market rate published by People's Bank of China. The borrowing is guaranteed by the Company, and is due for repayment on 20 March 2015.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2014, the construction of manufacturing plant planned by the Group in Taizhou had completed the basic workshop for Hemoporfin and office space. The trial production has completed.

The Company is now studying the feasibility to construct an additional building in the existing base so as to expand the space for small-scale trial production.

Saved as disclosed above, the Group had no other material capital expenditure plan for the moment.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations and investing activities with internally generated financial resources, proceeds from the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), proceeds from the share placement, grants from the municipal government authorities and commercial loans. As at 31 December 2014, the Group had a loan of RMB 25,000,000 outstanding. Such loan is an unsecured bank loan.

As at 31 December 2014, the Group had cash and cash equivalents of approximately RMB 356,097,000.

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. As at 31 December 2014 and 2013, cash and cash equivalents is much more than total balance of bank loans of the Group, therefore, the gearing ratio is not applicable.

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

FOREIGN EXCHANGE EXPOSURE

The Group mainly operates in the domestic market. Except for the Hong Kong dollars 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 2014, the Group had a total of 498 employees, as compared to 430 employees as at 31 December 2013. Staff costs including directors' remuneration for the year 2014 were RMB 70,510,000, compared with RMB 64,695,000 for the year 2013. The salaries and benefits of employees provided by the Group are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory social welfare plans, are also provided to employees by the Group.

Details of the remuneration policies are set out in the "Remuneration Committee" section of the "Corporate Governance Report".

USE OF PROCEEDS

On 4 February 2013, the Company completed a placing of 142,000,000 H shares with a par value of RMB 0.10 each at a price of HKD 1.70. The amount of net proceeds from the placing was approximately HKD 233,909,000 (equivalent to approximately RMB 185,575,000) (after deducting all applicable costs and expenses, including commissions, legal fees and levies). The net proceeds were applied in the planned projects described in the circular of the Company dated 14 May 2012 and the announcement of the Company dated 16 January 2013.

As at 31 December 2014, particulars of the proceeds from the placing were used as follows:

	Budget RMB'000	By the end of 31 December 2014 Total amount that has been utilised RMB'000
Research and development projects		
– the clinical study project regarding using ALA for the treatment of cervical intraepithelial neoplasia	**20,000**	5,259
– the pre-clinical study and clinical study project regarding using ALA for the treatment of brain glioma	**10,000**	1,164
– the pre-clinical and clinical study project of paclitaxel albumin nanoparticles	**20,000**	11,289
– the pre-clinical and clinical study project of CD30-MMAE	**30,000**	11,599
To repay the debts of the Company	**20,000**	20,000
For the working capital of the Company	**85,575**	85,575
Total	**185,575**	134,886

Report of the Directors

The Board is pleased to present the directors' report for the year 2014 and the audited consolidated financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Group is principally engaged in research and development and commercialization of innovative drugs.

The Group's revenue for the year 2014 was generated from the sale of medical products, the revenue from exclusive distribution rights and the revenue from technology transfer.

The Group only operates a single business segment in 2013 and 2014 and hence no segment information is presented.

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	57.16%	
Total of the five largest customers	76.54%	
Largest supplier		25.33%
Total of the five largest suppliers		62.99%

Shanghai Pharmaceuticals, a substantial shareholder of the Company, is a key customer of the Company. The connected transactions with Shanghai Pharmaceuticals have been approved at the general meeting of the Company. Save 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 2014 are set out in the consolidated statement of comprehensive income and related explanatory notes to the consolidated financial statements.

DIVIDENDS

Relevant resolution was passed at a meeting of the Board held on 24 March 2015 to propose to distribute a final dividend of RMB 0.05 per share (tax inclusive) for the year ended 31 December 2014, totalling approximately RMB 46,150,000. If the profit distribution plan is approved by the shareholders by way of an ordinary resolution at the 2014 annual general meeting to be held on Friday, 29 May 2015, the final dividend is expected to be distributed on Monday, 27 July 2015 to all shareholders whose names appear on the register of the Company on Thursday, 11 June 2015. To determine the identity of the shareholders entitled to receive the final dividend, the register of holders of H Shares of the Company will be closed from

Saturday, 6 June 2015 to Thursday, 11 June 2015 (both days inclusive) during which no transfer of H Shares will be registered. In order to qualify for entitlement to the proposed final dividend, all transfers of H Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 5 June 2015. Final dividend for holders of Domestic Shares will be declared and calculated in RMB, and paid in RMB whereas final dividend for holders of H Shares will be declared and calculated in RMB, and paid in Hong Kong dollars. The exchange rate shall be determined by the average selling rates promulgated by People's Bank of China within one week before the date declaring to distribute the dividend.

Pursuant to the Corporate Income Tax Law of the PRC ("CIT Law") and its implementing regulations, the tax rate of the corporate income tax applicable to the income of non-resident enterprise deriving from the PRC is 10%. For this purpose, any H shares registered under the name of non-individual enterprise, including the H shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organizations or entities, shall be deemed as shares held by non-resident enterprise shareholders as defined under the CIT Law. The Company will distribute the final dividend to non-resident enterprise shareholders subject to a deduction of 10% corporate income tax withheld and paid by the Company on their behalf.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of GuoShui Fa [1993] No. 045 Document issued by the State Administration of Tax on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% personal income tax will be withheld from the final dividend payable to any individual shareholders whose names appear on the register of members of H Shares of the Company on 11 June 2015, unless otherwise stated in the relevant taxation regulations, taxation agreements or the notice.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

SHARE CAPITAL

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

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 35 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group for the year are set out in note 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 Company during the year and as at the date of this report are as follows:

Executive Directors

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

Non-executive Directors

Fang Jing (Resigned on 30 May 2014)
Ke Ying
Shen Bo
Yu Xiao Yang

Independent Non-executive Directors

Pan Fei (Resigned on 30 May 2014)
Cheng Lin (Resigned on 30 May 2014)
Zhou Zhong Hui
Lam Yiu Kin
Chen Kai Xian (Appointed on 30 May 2014)

Supervisors

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

CORPORATE GOVERNANCE

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

1) Corporate governance report;

2) Report of the supervisory committee;

3) Report of the audit committee;

4) Report of the remuneration committee;

5) Report of the nomination committee.

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 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 the top 5 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 2014	Number Year 2013
Directors	**3**	3
Non-directors	**4**	4
	7	7

The emoluments fell within the following bands:

	Number Year 2014	Number Year 2013
The emoluments range (HKD)		
1,000,000 – 1,500,000	**1**	1
1,500,000 – 2,000,000	**5**	5
2,500,000 – 3,000,000	**1**	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 31 December 2014, the Group did not have any share option scheme in force.

RESTRICTED SHARE SCHEME

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

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

As at the date of this report, the Company has completed the first unlocking stage for the restricted share scheme.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

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

As at 31 December 2014, the interests (if any) of the Directors, chief executive and Supervisors and their respective associates in the shares or debentures (including interests in shares and/or short positions) of the Company and its associated corporations, (a) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO"); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of 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%

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

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2014, 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	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	23,639,000 (L)	Beneficial owner	Personal	6.95%	2.56%
Fudan University	Domestic Shares	30,636,286 (L)	Interest of controlled corporation	Corporate	5.25%	3.32%
Shanghai Fudan Asset Operating Limited (上海復旦資產經營有限公司)	Domestic Shares	30,636,286 (L)	Beneficial owner	Corporate	5.25%	3.32%

Note 1: The letter “L” stands for long position.

CONNECTED TRANSACTIONS

For the year ended 31 December 2014, the continuing connected transactions of the Group are set out as follows:

Sales and Distribution Agreement with Shanghai Pharmaceutical Distribution

In order to leverage the established and extensive sales and distribution network of Shanghai Pharmaceuticals, a substantial shareholder of the Company, the Company has been engaging Shanghai Pharmaceutical Distribution Co., Ltd. ("Shanghai Pharmaceutical Distribution"), as its distribution agent since 10 August 2010 when the Company entered into a sales and distribution agreement (the "Sales and Distribution Agreement") with Shanghai Pharmaceutical Distribution, a wholly-owned subsidiary of Shanghai Pharmaceuticals. Details of the terms of the updated Sales and Distribution Agreement were set out in the circular issued by the Company on 12 April 2013. The annual caps for the continuing connected transactions contemplated under the Sales and Distribution Agreement for the three years ending 31 December 2015 are approximately RMB 20 million, RMB 31 million and RMB 50 million, respectively, as approved at the annual general meeting held on 30 May 2013. This is a continuing connected transaction and discloseable transaction. During the year 2014, the product sales revenue to Shanghai Pharmaceutical Distribution was RMB 17,575,000, which did not exceed the annual cap which was approved at the annual general meeting held on 30 May 2013.

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, a substantial shareholder of the Company, for the cooperation on innovative pharmaceuticals 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 12 April 2013. The transaction was approved at the annual general meeting held on 30 May 2013. The annual caps for the continuing connected transactions contemplated under the Strategic Cooperation Agreement for the three years ending 31 December 2016 were approximately RMB 33 million, RMB 31 million and RMB 20 million, respectively. This is a continuing connected transaction and disclosable transaction. During the year 2014, the Group received an amount of RMB 29,893,000 from Shanghai Pharmaceuticals for cooperation and development, which did not exceed the annual cap which was approved at the annual general meeting held on 30 May 2013.

The Audit Committee and Independent Non-executive Directors have reviewed the above mentioned continuing connected transactions and confirmed that the transactions have been entered into:

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

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

(3) on normal commercial terms or better; and

(4) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange on 24 March 2015.

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 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 2014.

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

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

The Audit Committee reviews the accounting principles and practices adopted by the Group as well as the internal controls to check whether they comply with the Listing Rules, and reviews issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee reviewed the Group's annual results and financial statements for year 2014 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 Listing Rules, each of the Independent Non-executive Directors of the Company has confirmed with the Company their independence. The Company has received such confirmations from the Independent Non-executive Directors and has confirmed the independence of Independent Non-executive Directors.

By Order of the Board
Wang Hai Bo
Chairman

As at the date of this report, the Board comprises:

Mr. Wang Hai Bo *(Executive Director)*
Mr. Su Yong *(Executive Director)*
Mr. Zhao Da Jun *(Executive Director)*
Ms. Ke Ying *(Non-executive Director)*
Mr. Shen Bo *(Non-executive Director)*
Ms. Yu Xiao Yang *(Non-executive Director)*
Mr. Zhou Zhong Hui *(Independent Non-executive Director)*
Mr. Lam Yiu Kin *(Independent Non-executive Director)*
Mr. Chen Kai Xian *(Independent Non-executive Director)*

Shanghai, the PRC
24 March 2015

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 2014 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 2014.

The Supervisory Committee was of the view that the resolutions passed in all board meetings for the year 2014 had been made with a view to protecting the Group's interests. No insider dealings, or anything which was prejudicial to the interests of the Group, or loss of Group's assets was acknowledged. The auditors' reports issued by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP are true and objective. The Group's financial statements have accurately reflected the Group's financial position.

The Supervisory Committee is satisfied with the achievement and progress of each task of the Group in 2014 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
24 March 2015

Report of Audit Committee

The Audit Committee is comprised of two Independent Non-executive Directors (Mr. Lam Yiu Kin and Mr. Chen Kai Xian) and one Non-executive Director (Mr. Shen Bo). Mr. Lam Yiu Kin, Independent Non-executive Director, was appointed as the chairman of the Audit Committee. Mr. Lam Yiu Kin is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants in Australia (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Chen Kai Xian is a Ph.D. supervisor of Shanghai Institute of Materia Medica of Chinese Academy of Sciences, an academician of Chinese Academy of Sciences. Mr. Shen Bo is a master of professional accounting and he is the chief financial officer of a listed company. All of them have extensive experience in accounting, industry, and financial management.

The Audit Committee assists the Directors in discharging their duties through independent reviews and supervision of financial reporting, together with the Group's effective internal control and appointment of 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 2014 is as follows:

1) Review the financial reports for the year ended 31 December 2013 and for the half year ended 30 June 2014, respectively;

2) Review connected transactions of the Group during the year 2013;

3) Supervise the Group's financial reporting system and internal control procedures;

4) Review the external audit arrangements and related explanations;

5) Review and approve the audit fees for 2014.

Report of Audit Committee

The Audit Committee meeting held on 24 March 2015 reviewed the Company's 2014 consolidated financial statements together with the Company's external auditors, including a review of the accounting principles and practice principles adopted by the Group. Based on the results of the review and after discussion with the management and the auditors, the Audit Committee agreed with the accounting treatments adopted by the Group, and has made efforts to ensure that the financial information disclosed in the consolidated financial statements complies with relevant requirements of the applicable accounting principles and the Listing Rules. Accordingly, the Audit Committee proposed that the Board approved the annual results announcement and the consolidated financial statements for the year ended 31 December 2014, 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 2015.

The Audit Committee held three meetings in 2014.

Audit Committee

Mr. Lam Yiu Kin *(Chairman)*
Mr. Shen Bo
Mr. Chen Kai Xian

Shanghai, the PRC
24 March 2015

Report of Remuneration Committee

The Remuneration Committee is comprised of 3 members, who are Mr. Zhou Zhong Hui (Chairman, Independent Non-executive Director), Mr. Lam Yiu Kin (Independent Non-executive Director), and Mr. Chen Kai Xian (Independent Non-executive Director).

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

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

Report of Remuneration Committee

A summary of the work performed by the Remuneration Committee in 2014 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 2013;

3) Formulate the remuneration scheme for the Directors and Supervisors for 2014.

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

The Remuneration Committee held one meeting in 2014.

Remuneration Committee

Mr. Zhou Zhong Hui *(Chairman)*
Mr. Lam Yiu Lin
Mr. Chen Kai Xian

Shanghai, the PRC
24 March 2015

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. Zhou Zhong Hui (Independent Non-executive Director), and Mr. Chen Kai Xian (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 2014 is as follows:

1) Review and propose the candidates of Directors and Supervisors who are re-elected or appointed;

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

3) Review and propose the candidates of Senior Management such as General Manager;

4) 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 2014.

Nomination Committee

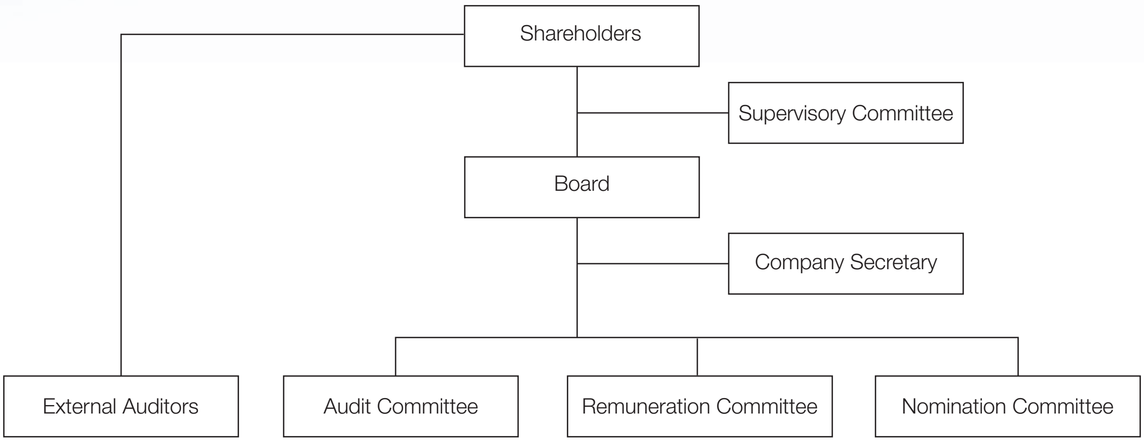
Mr. Wang Hai Bo *(Chairman)*
Mr. Zhou Zhong Hui
Mr. Chen Kai Xian

Shanghai, the PRC
24 March 2015

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Company's corporate governance structure is as follows:



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

a) Articles of Association;
b) Principles of the Audit Committee;
c) Principles of the Remuneration Committee;
d) Principles of the Nomination Committee;
e) Principles regarding transactions in the Company's securities;
f) 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, except for the following deviation:

– The positions of the chairman and the general manager rest on the same person. Although the Articles of Association contains specific requirements on the responsibilities of the chairman and the general manager (chief executive), such being the responsibilities of managing the operation of the Board and managing the daily operation of the Company, respectively, the two positions are still taken by one person. Considering that the scale of the Company is relatively small with its businesses mainly focused in the areas of research, production and sales of innovative drugs, and 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 other Executive Directors, three Non-executive Directors and three Independent Non-executive Directors. Except for Mr. Chen Kai Xian who joined the Board as Independent Non-executive Director on 30 May 2014, all the other Directors were in place in the whole year of 2014.

Particulars 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	30 May 2014	Three years
Su Yong	20 January 2002	30 May 2014	Three years
Zhao Da Jun	20 January 2002	30 May 2014	Three years
Non-executive Directors			
Ke Ying	27 May 2011	30 May 2014	Three years
Shen Bo	29 June 2012	30 May 2014	Three years
Yu Xiao Yang	30 May 2013	30 May 2014	Three years
Independent Non-executive Directors			
Zhou Zhong Hui	30 May 2013	30 May 2014	Three years
Lam Yiu Kin	9 October 2013	30 May 2014	Three years
Chen Kai Xian	30 May 2014	–	Three years

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

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

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

Powers of the Board

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

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

2) Implementing the resolutions of the general meetings;

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

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

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

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

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

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

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

10) Setting the basic management policies of the Company;

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

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

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

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

Board Meetings

The Chairman is responsible for the leadership of the Board and ensuring the Board to perform its duties effectively. The Chairman is also responsible for setting agenda for the Board meetings and considering matters which are proposed by other directors for inclusion in the agenda. The agenda and accompanying board documents are circulated where possible at least three days prior to the Board or committee meeting. The Chairman is also responsible for making sure that all Directors are properly briefed on issues which will be discussed at board meetings. The Chairman ensures that the Directors can receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Group through their ongoing participation at board and committee meetings, and through meeting key people in the divisions.

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

Minutes of board meetings are taken by the Company Secretary and, together with any supporting board documents, are available to all board members. Board meetings are structured to encourage open discussion and frank debate among the Directors, such that the Non-executive Directors can put forward effective queries to each Executive Director effectively. The Independent Non-executive Directors meet privately to discuss matters which are associated with their specific responsibilities when necessary,

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

The Board met 5 times during 2014. 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)*	4	1	0	0	100%
Su Yong	3	1	1	0	100%
Zhao Da Jun	4	1	0	0	100%
Non-executive Directors					
Fang Jing (Resigned on 30 May 2014)	1	1	0	0	100%
Ke Ying	2	0	2	1	80%
Shen Bo	4	1	0	0	100%
Yu Xiao Yang	1	3	0	1	80%
Independent Non-executive Directors					
Pan Fei (Resigned on 30 May 2014)	1	1	0	0	100%
Cheng Lin (Resigned on 30 May 2014)	1	1	0	0	100%
Zhou Zhong Hui	4	1	0	0	100%
Lam Yiu Kin	2	3	0	0	100%
Chen Kai Xian (Appointed on 30 May 2014)	2	0	1	0	100%

The table below sets out the time and major agenda of Board meetings in 2014:

Time of Board meetings	Major agenda
Regular Board meetings	
26 March 2014	Reviewed the annual report of 2013; Considered the distribution of dividend; Considered the re-appointment of the auditors; Considered to re-elect and appoint directors and supervisors; Considered the 2014 remuneration plans for Directors and Supervisors; Determined the time for annual general meeting.
30 May 2014	Elected chairman of the fifth session of the Board; Considered to elect members and chairman of the committees under the fifth session of the Board; Considered to re-elect Wang Hai Bo as general manager and re-elect the original senior management; Reviewed the first quarterly results report of 2014.
20 August 2014	Reviewed the interim results report of 2014.
12 December 2014	Reviewed the third quarterly results report of 2014; Reviewed the acquisition of 90% shares in Youni Bio-tech; Reviewed the establishment of De Mei Zhen Lian Co., Ltd.
Extraordinary Board meeting	
1 April 2014	Considered the granting of a general mandate to the Board to issue the shares of the Company, not exceed 20% of the capital.

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 Company secretary send the documents such as industry frontier information, the Listing Rules updates, Director's responsibilities to the directors for reference by e-mail twice during the reporting period. The attendance of the training was as follows:

Members of the Board	Attendance/ Times of trainings	Attendance rate
Wang Hai Bo *(Chairman)*	3/3	100%
Su Yong	3/3	100%
Zhao Da Jun	3/3	100%
Fang Jing (Resigned on 30 May 2014)	1/1	100%
Ke Ying	2/3	67%
Shen Bo	3/3	100%
Yu Xiao Yang	3/3	100%
Pan Fei (Resigned on 30 May 2014)	1/1	100%
Cheng Lin (Resigned on 30 May 2014)	1/1	100%
Zhou Zhong Hui	3/3	100%
Lam Yiu Kin	3/3	100%
Chen Kai Xian (Appointed on 30 May 2014)	2/2	100%

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

Directors' and Supervisors' Interests

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

The Group has not entered into any material contracts in which the Group's Directors or Supervisors have direct or indirect material interests during any time in 2014.

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 under the age of 18 years has been authorized by the Company or any subsidiary any right to purchase shares or debentures in the Company or any other body corporate, or have exercised such rights within the year 2014.

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
Zhao Wen Bin (Shareholders' representative Supervisor)	30 May 2013	30 May 2014	3 years
Li Ning Jian (Shareholders' representative Supervisor)	30 May 2013	30 May 2014	3 years
Zhang Man Juan (Staff representative Supervisor)	24 June 2005	30 May 2014	3 years
Guo Yi Cheng (Independent Supervisor)	23 May 2008	30 May 2014	3 years
Xu Qing (Independent Supervisor)	23 May 2008	30 May 2014	3 years

The Supervisory Committee held four meetings during 2014, the attendance of which was as follows:

Members of the Supervisory Committee	Attendance	Attendance rate
Zhao Wen Bin *(Chairman)*	4/4	100%
Li Ning Jian	3/4	75%
Zhang Man Juan	4/4	100%
Guo Yi Cheng	4/4	100%
Xu Qing	2/4	50%

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 half-year results have been published would be sent to the Directors 30 days before the date of every Board meeting on which the half-year results are supposed to be approved, and 60 days before the annual board meeting.

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

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

All Directors, Supervisors and relevant employees have complied with the relevant requirements in 2014.

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 2014. 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 is comprised of two Independent Non-executive Directors (Mr. Lam Yiu Kin and Mr. Chen Kai Xian) and one Non-executive Director (Mr. Shen Bo). Mr. Lam Yiu Kin (an Independent Non-executive Director) is the chairman of the Committee. Mr. Lam Yiu Kin is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants in Australia (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Chen Kai Xian is a Ph.D. supervisor of Shanghai Institute of Materia Medica of Chinese Academy of Sciences, an academician of Chinese Academy of Sciences. Mr. Shen Bo is a master of professional accounting and he is the chief financial officer of a listed company. All of them have extensive experience in accounting, industry, and financial management.

The Company has formulated specific "Principles of the Audit Committee" as a guideline for the Audit Committee in dealing with various matters. The updated Principles of the Audit Committee were passed by the Board of Directors on 30 May 2014.

The Audit Committee met three times in 2014. Senior management and/or external auditors were invited to attend each meeting. In 2014, 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 2014 quarterly, interim results and 2013 annual results before proposing to the Board for approval. The Audit Committee has discussed the appointment of external auditors and the audit fees, and has made proposals to the Board in respect of such matters.

Attendance of meetings of the Audit Committee in 2014:

Audit Committee	**Attendance in person/ Times of meetings**	**Attendance rate**
Pan Fei *(chairman)* (resigned on 30 May 2014)	1/1	100%
Cheng Lin (resigned on 30 May 2014)	1/1	100%
Lam Yiu Kin *(chairman)* (appointed on 30 May 2014)	2/2	100%
Shen Bo	3/3	100%
Chen Kai Xian (appointed on 30 May 2014)	2/2	100%

Connected transactions

The Audit Committee has reviewed the connected transactions. For the year ended 31 December 2014, 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 2014. The Company has not changed the auditors in the past three years. The fees on the audit services, 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 2014**	Audit fees and non-audit fees in 2013
PricewaterhouseCoopers	**RMB 1,100,000**	RMB 988,000
PricewaterhouseCoopers Zhong Tian LLP	**RMB 798,000**	RMB 658,000

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

	Fees in 2014	Fees in 2013
Audit fees		
Annual statutory audit fees	**RMB 1,890,000**	RMB 1,238,000
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 8,000

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 China, the Company is required to pay statutory benefits such as retirement insurance funds, common reserve funds, medical insurance and unemployment insurance funds for the staff.

The Board established the Remuneration Committee, and stipulated the "Principles of the Remuneration Committee" with specific terms of reference of the Remuneration Committee. The Remuneration Committee is comprised of 3 members, who are Mr. Zhou Zhong Hui (Chairman, Independent Non-executive Director), Mr. Lam Yiu Kim (Independent Non-executive Director) and Mr. Chen Kai Xian (Independent Non-executive Director). The updated Principles of the Remuneration Committee were passed by the Board on 30 May 2014.

The Remuneration Committee held one meeting during 2014, the attendance of which was as follows:

Remuneration Committee	Attendance in person/ Times of meetings	Attendance rate
Cheng Lin *(chairman)* (resigned on 30 May 2014)	1/1	100%
Pan Fei (resigned on 30 May 2014)	1/1	100%
Fang Jing (resigned on 30 May 2014)	1/1	100%
Zhou Zhong Hui *(chairman)* (appointed on 30 May 2014)	–	–
Lam Yiu Kin (appointed on 30 May 2014)	–	–
Chen Kai Xian (appointed on 30 May 2014)	–	–

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 2014. Refer to note 13 and note 37 to the consolidated financial statements for the emoluments of Directors and senior management for 2014.

Remuneration Policy for Executive Directors

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

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

Basic salaries

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

Discretionary bonus

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

Statutory benefits

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

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. Zhou Zhong Hui (Independent Non-executive Director) and Mr. Chen Kai Xian (Independent Non-executive Director). The updated "Principles of the Nomination Committee" were passed by the Board on 30 May 2014.

The Nomination Committee held two meetings during 2014, the attendance of which was as follows:

Members of the Nomination Committee	Attendance	Attendance Rate
Wang Hai Bo *(chairman)*	2/2	100%
Chen Lin (resigned on 30 May 2014)	1/1	100%
Pan Fei (resigned on 30 May 2014)	1/1	100%
Zhou Zhong Hui (appointed on 30 May 2014)	1/1	100%
Chen Kai Xian (appointed on 30 May 2014)	1/1	100%

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

COMPANY SECRETARY

The primary responsibility of the company secretary of the Company is to ensure good information exchange between board members, and investors with the Company as well. In addition, the company secretary should be responsible for the compliance with the policies and procedures of the board of directors as well as all applicable regulations. During the year 2014, the Company Secretary has completed over 15 hours training provide by the professional agents.

RIGHTS OF INVESTORS

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

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

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

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

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

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

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

RELATIONSHIP WITH INVESTORS

In recent years, the Company has attracted much higher attention from the capital markets. Investors at home and abroad addressed invitations to the Company through various means, including on-site surveys, telephone surveys, and invitations to participate in investment strategy forums. Based on the principles of communicating actively and information disclosure, the Company enhanced the efforts on the reception of investors to improve our market image. The Company has received visits of nearly 230 analysts, representatives from investment institutions and individual investors focusing on the domestic and foreign medical industries.

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 2014, 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 2014 maintained the relevant applicable minimum percentage of listed securities as prescribed by Rule 8.08(1)(a) of the Listing Rules.

For the year 2014, there is no significant change on the Articles of Association of the Company except for the changes as a result of the less member numbers of the Board and Supervisory Committee.

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 2014, the Company has held an annual general meeting, details of which are as follows:

Time	10:00 a.m., 30 May 2014
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 re-election and election of the candidates as the directors of the fifth session of the Board; Resolved to approve the re-election of the candidates as the supervisors of the fifth session of the Supervisory Committee; Resolved to approve the amendments to the Articles of Association in respect of Articles 7, 97, 117 and 118; Resolved to approve the granting of a general mandate to the Board to issue the shares of the Company.

The attendance of individual directors at the general meeting during the year 2014 is set out in the table below:

Member of the Board	Attendance	Attendance rate
Executive Director		
Wang Hai Bo *(Chariman)*	1/1	100%
Su Yong	1/1	100%
Zhao Da Jun	1/1	100%
Non-executive Director		
Fang Jing (Resigned on 30 May 2014)	1/1	100%
Ke Ying	1/1	100%
Shen Bo	1/1	100%
Yu Xiao Yang	0/1	0%
Independent Non-executive Director		
Pan Fei (Resigned on 30 May 2014)	0/1	0%
Cheng Lin (Resigned on 30 May 2014)	0/1	0%
Zhou Zhong Hui	1/1	100%
Lam Yiu Kin	1/1	100%
Chen Kai Xian (Appointed on 30 May 2014)	–	–

Arrangements for the dates of the annual results in 2014, the interim results in 2015 and the annual general meeting are as follows:

Items	Proposed time
Announcement of 2014 results	24 March 2015
Annual general meeting	29 May 2015
Announcement of 2015 interim results	Around 10 August 2015

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 consider the environmental management by assessing the policy, strategies, objectives, implementation and measurement method in terms of the pollution of water, air, noise and the other wastes.

The Company will publish the environmental report of 2014 on the Company's website.

Social public welfare

In responding the call from the leading group of the Hope Project in Dehong, Yunnan Province, the Company donated "Fudan-Zhangjiang hope library" to Mang Hui School in Husa township Longchuan county, in order to help each rural school student has abundant and healthful books to read in November 2014.

In order to support the dermatologists to carry out photodynamic related scientific research on a national scale, the Company and the dermatologists branch of China Medical Doctor Association set up a special fund to provide targeted funding and coordinated support to dermatologists in professional area.

By order of the Board

Xue Yan
Secretary

Shanghai, the PRC
24 March 2015

Profiles of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Wang Hai Bo, aged 54, 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 State Star Fire Grade III Award (國家星火三等獎), Education Committee Grade II Award (教委二等獎) and Technology Advancement Award of the Shanghai Municipality (上海市科技進步獎). He graduated from Fudan University with a bachelor's degree in Biology in July 1983 and a 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 50, 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 twenty years. He was the chief engineer of Hangzhou Jiuyuan Gene Engineering Co., Ltd. from January 1994 to April 1997, during which he was responsible for managing the genetic engineering department. He graduated from Northwest Normal University with a bachelor's degree in Biology Science in July 1985, from Fudan University with a master's degree in Biochemistry in July 1993, and from Zhejiang University with a Ph.D. in Oncology in June 2000.

Zhao Da Jun, aged 44, was appointed as an Executive Director in January 2002. He is also the deputy general manager 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

Ke Ying, aged 46, was appointed as a Non-executive Director in May 2011. She is a senior engineer. She is currently the deputy general manager of Research and Development Department of Shanghai Pharmaceuticals. She has extensive management experience in research and development of drugs. She used to be the deputy manager of Shanghai Si Wei Pharmaceutical Technical Co., Ltd. (上海斯威醫藥化學技術有限公司) from 1999 to 2002, the project manager and assistant to the general manager of Shanghai Kaiman Bio-technology Co., Ltd. (上海凱曼生物科技有限公司) from 2002 to 2004, and the minister of Resource Department and the assistant to the principal of the Central Research Institute of Shanghai Pharmaceuticals from 2008 to 2010. She graduated from East China Normal University with a bachelor's degree in Chemistry in July 1990, and a master's degree in Fine Organic Synthesis in July 1993.

Shen Bo, aged 41, was appointed as a Non-executive Director in June 2012. He has passed the PRC Certified Public Accountants examination. He is the chief financial officer and general manager of Shanghai Pharmaceuticals, 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., 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 57, 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 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

Zhou Zhong Hui, aged 67, 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 1989 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 60, 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 from 1997 to 2003, a committee member of HKICPA from 1994 to 2009, a member of the Financial Reporting Advisory Panel of the Stock Exchange from 1997 to 2003 and a partner with PricewaterhouseCoopers Hong Kong from 1993 to 2013. He graduated from Hong Kong Polytechnic University with a higher diploma in June 1975. Mr. Lam has been an independent non-executive director of Kate China Holdings Limited (a company listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8125)) since 30 June 2014. He has been an independent non-executive director of Spring Asset Management Limited since 12 January 2015 (Stock Code: 01426).

Chen Kai Xian, aged 69, is a researcher and Ph.D. supervisor of Shanghai Institute of Materia Medica Chinese, Academy of Sciences, an academician of Chinese Academy of Sciences. He is the deputy director of Chinese Pharmaceutical Association and honorary director of Shanghai Pharmaceutical Association, an editor of several professional publications such as Acta Pharmacologica Sinica and Chinese Journal of New Drugs, etc. He is also a part-time professor of Fudan University and China Pharmaceutical University. He joined Shanghai Institute of Materia Medica, Chinese Academy of Sciences in Feburary 1985, used to be the head and a director of the academic committee of Shanghai Institute of Materia Medica, Chinese Academy of Sciences. He was the president of Shanghai University of Traditional Chinese Medicine from March 2005 to February 2014. He graduated from Fudan University in 1967. He obtained a master's degree and doctorate in 1982 and 1985 respectively from Shanghai Institute of Materia Medica, Chinese Academy of Sciences. Mr. Chen had been an independent non-executive director of Fosun International Limited, a company listed on the Stock Exchange (Stock Code: 0656) since August 2005, and resigned on 28 March 2012.

SUPERVISORS

Zhao Wen Bin, aged 40, was appointed as an independent supervisor on 30 May 2013. He was 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 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 31, 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 50, 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 majoring in Finance and Accounting.

Guo Yi Cheng, aged 68, was appointed as an independent supervisor in May 2008. He had been appointed as a supervisor between June 2005 and June 2006. He used to be the head of Teaching and Research Section of Shanghai Mechanical and Electrical Party School, deputy head of Economy Department of Shanghai Municipality Government Research Office, deputy general manager of Shanghai Pharmaceutical Co., Ltd., and the director and deputy general manager of General Technology Group Pharmaceutical Holding Limited. He graduated from Economic Management College of China Central Party School and holds a researcher's qualification from Shanghai Academy of Social Sciences.

Xu Qing, aged 50, was appointed as an independent supervisor in May 2008. He is currently a professor of Tongji Unversity Medical School, doctor-postgraduate supervisor, deputy director of the Oncology Department and Tumor Institutel, and director, chief physician of Tumor Internal Medicine Department of the Tenth People's Hospital affiliated to Tongji University. And he is director of Tumor Department of Shanghai Dermatology Hospital affiliated to Tongji University. He used to serve as a deputy director, a deputy chief physician, and a deputy professor of the 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 100 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 46, 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 52, 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 52, joined the Company in 2010. He is a deputy general manager of the Company. He used to be the general manager of Haini Pharmaceutical Co., Ltd. (Shanghai) from 2003 to 2009, responsible for completion of construction of production workshops, laboratories and workstations, recruitment of staff and managers, and establishing a performance evaluation system. He was the production manager of Xi'an Janssen Pharmaceutical Co., Ltd. from 1995 to 2003, responsible for organizing and implementing a number of medium and large technological transformation projects. He obtained a bachelor's degree in Industrial Automation from Xi'an Technology University in December 1990, an MBA from Xi'an Jiaotong University in December 2001, an EMBA from Antwerp University (Belgium) in October 2002, and a master's degree in Pharma Engineering from Beijing Chemical Engineering University in December 2006. Mr. Gan Yi Min has not held any directorships in listed public companies in the past three years.

COMPANY SECRETARY

Xue Yan, aged 33, 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

pwc

羅兵咸永道

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

We have audited the consolidated financial statements of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 63 to 128, which comprise the consolidated and company balance sheets as at 31 December 2014, 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 2014, 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, 24 March 2015

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Revenue	4	**470,900**	415,925
Cost of sales	6	**(36,821)**	(32,407)
Gross profit		**434,079**	383,518
Other income	5	**81,770**	46,417
Research and development costs	6	**(105,071)**	(68,108)
Distribution and marketing costs	6	**(258,025)**	(232,057)
Administrative expenses	6	**(22,650)**	(20,772)
Other operating expenses	6	**(143)**	(638)
Operating profit		**129,960**	108,360
Finance costs	7	**(1,861)**	(9,414)
Profit before income tax		**128,099**	98,946
Income tax expense	10	**(17,605)**	(15,405)
Profit for the year		**110,494**	83,541
Other comprehensive income		**–**	–
Total comprehensive income for the year		**110,494**	83,541
Profit attributable to:			
Shareholders of the Company		**118,258**	87,218
Non-controlling interests		**(7,764)**	(3,677)
		110,494	83,541
Total comprehensive income attributable to:			
Shareholders of the Company		**118,258**	87,218
Non-controlling interests		**(7,764)**	(3,677)
		110,494	83,541
Basic and diluted earnings per share for profit attributable to the shareholders of the Company	14	**RMB 0.1281**	RMB 0.1009

The notes on pages 68 to 128 are an integral part of these financial statements.

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Dividend	12	**46,150**	–

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

As at 31 December 2014

	Note	Group As at 31 December 2014 RMB'000	 2013 RMB'000	Company As at 31 December 2014 RMB'000	 2013 RMB'000
Non-current assets					
Leasehold land payments	15	**32,550**	33,340	**3,861**	3,967
Property, plant and equipment	16	**285,740**	264,732	**127,132**	107,123
Technical know-how	17	**2,867**	2,099	**25,592**	701
Deferred costs	18	**17,131**	9,997	**43**	740
Investments in subsidiaries	19	**–**	–	**70,863**	80,613
Investment in an associate	20	**–**	–	**–**	–
Deferred income tax assets	21	**3,727**	6,383	**5,113**	5,999
Other non-current assets		**3,011**	2,954	**2,352**	1,738
		345,026	319,505	**234,956**	200,881
Current assets					
Inventories	22	**13,983**	15,568	**10,897**	12,828
Trade receivables	24	**86,132**	66,986	**85,504**	63,841
Other receivables, deposits and prepayments	25	**16,389**	20,432	**7,069**	11,465
Amount due from a related party	26	**6,854**	1,798	**6,854**	1,714
Amounts due from subsidiaries	27	**–**	–	**66,856**	55,962
Cash and cash equivalents	28	**356,097**	324,927	**333,587**	290,833
		479,455	429,711	**510,767**	436,643
Total assets		**824,481**	749,216	**745,723**	637,524
Non-current liabilities					
Borrowings	29	**–**	25,000	**–**	–
Deferred revenue	30	**26,954**	35,647	**8,221**	2,329
		26,954	60,647	**8,221**	2,329

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

As at 31 December 2014

	Note	Group As at 31 December 2014 RMB'000	Group 2013 RMB'000	Company As at 31 December 2014 RMB'000	Company 2013 RMB'000
Current liabilities					
Trade payables	31	**2,789**	8,843	**2,123**	7,450
Other payables and accruals		**66,210**	68,159	**62,822**	62,924
Current income tax liabilities		**7,068**	8,977	**7,068**	9,029
Amounts due to related parties	32	**3,049**	–	**3,045**	–
Amount due to a subsidiary	33	**–**	–	**269**	–
Borrowings	29	**25,000**	15,000	**–**	–
Deferred revenue	30	**16,992**	21,665	**9,265**	11,290
		121,108	122,644	**84,592**	90,693
Total liabilities		**148,062**	183,291	**92,813**	93,022
Capital and reserves attributable to shareholders of the Company					
Share capital	34	**92,300**	92,300	**92,300**	92,300
Reserves	35	**558,675**	440,417	**560,610**	452,202
		650,975	532,717	**652,910**	544,502
Non-controlling interests		**25,444**	33,208	**–**	–
Total equity		**676,419**	565,925	**652,910**	544,502
Total equity and liabilities		**824,481**	749,216	**745,723**	637,524
Net current assets		**358,347**	307,067	**426,175**	345,950
Total assets less current liabilities		**703,373**	626,572	**661,131**	546,831

The notes on pages 68 to 128 are an integral part of these financial statements.

Wang Hai Bo
Director

Zhao Da Jun
Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Operating activities			
Cash generated from operations	36	**106,223**	107,084
Interest paid		**(1,870)**	(5,440)
Interest received		**864**	1,957
Income tax paid		**(16,858)**	(14,159)
Net cash generated from operating activities		**88,359**	89,442
Investing activities			
Purchase of property, plant and equipment		**(44,089)**	(56,716)
Additions to deferred costs		**(4,602)**	(4,563)
Purchase of technical know-how		**(816)**	(660)
Proceeds from disposal of property, plant and equipment		**545**	1,232
Investments in bank financial products		**(1,411,817)**	(422,400)
Cash received upon maturity of bank financial products		**1,418,590**	424,552
Net cash used in investing activities		**(42,189)**	(58,555)
Financing activities			
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
Repayments of borrowings		**(15,000)**	(91,498)
Net cash (used in)/generated from financing activities		**(15,000)**	135,773
Net increase in cash and cash equivalents		**31,170**	166,660
Cash and cash equivalents at beginning of the year		**324,927**	158,267
Cash and cash equivalents at end of the year	28	**356,097**	324,927

The notes on pages 68 to 128 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Attributable to shareholders of the Company				Non-controlling interests	Total equity
	Share capital (Note 34) RMB'000	Capital accumulation reserve (Note 35) RMB'000	Statutory common reserve fund (Note 35) RMB'000	(Accumulated losses)/ Retained earnings (Note 35) RMB'000	RMB'000	RMB'000
Balance at 1 January 2013	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
Profit/(loss) for the year 2014	**–**	**–**	**–**	**118,258**	**(7,764)**	**110,494**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income/(loss) for the year 2014	**–**	**–**	**–**	**118,258**	**(7,764)**	**110,494**
Appropriation to statutory reserve	**–**	**–**	**10,841**	**(10,841)**	**–**	**–**
Balance at 31 December 2014	**92,300**	**412,211**	**27,009**	**119,455**	**25,444**	**676,419**

The notes on pages 68 to 128 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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. Pursuant to the scheme, the Company granted 35,500,000 domestic shares as restricted shares to directors, senior management, mid-level management and key research staff of the Group on 24 June 2013 and 21 October 2013, respectively, at a price of RMB 0.51 with a par value of RMB 0.10 each. Upon completion of the grants of 71,000,000 domestic shares, the share capital of the Company was increased to RMB 92,300,000.

On 16 December 2013, the Company transferred its H Shares listing from GEM to the Main Board of the Stock Exchange.

As at 31 December 2014, the Company had direct interests of 100%, 65%, 69.77% and 56% in four subsidiaries, namely 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 the 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"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Hong Kong Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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.

(a) New amendments and interpretation of IFRS adopted by the Group

The following new amendments and interpretation of IFRS are mandatory for the first time for the financial year beginning on or after 1 January 2014.

IFRS 10 (Amendments)	Consolidated Financial Statements, on consolidation for investment entities
IFRS 12 (Amendments)	Disclosures of Interests in Other Entities
IAS 27 (Amendments)	Separate Financial Statements, on consolidation for investment entities
IAS 32 (Amendments)	Financial Instruments: Presentation
IAS 36 (Amendments)	Impairment of Assets, on recoverable amount disclosures
IAS 39 (Amendments)	Financial Instruments: Recognition and Measurement, on novation of derivatives
IFRIC Interpretation 21	Levies

The adoption of the above new amendments and interpretation of IFRS starting from 1 January 2014 did not have any significant impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

IFRS 2 (Amendments)	Share-based Payment
IFRS 3 (Amendments)	Business Combinations
IFRS 7 (Amendments)	Financial Instruments: Disclosures
IFRS 8 (Amendments)	Operating Segments
IFRS 9	Financial Instruments
IFRS 10 (Amendments)	Consolidated Financial Statements, on applying the consolidation exception
IFRS 11 (Amendments)	Joint Arrangements
IFRS 13 (Amendments)	Fair Value Measurement
IFRS 14	Regulatory Deferral Accounts
IFRS 15	Revenue from Contracts with Customers
IAS 1 (Amendments)	Presentation of Financial Statements
IAS 16 (Amendments)	Property, Plant and Equipment
IAS 19 (Amendments)	Employee Benefits
IAS 24 (Amendments)	Related Party Disclosures
IAS 27 (Amendments)	Separate Financial Statements, on equity method in separate financial statements
IAS 28 (Amendments)	Investments in Associates and Joint Ventures
IAS 38 (Amendments)	Intangible Assets

(c) New Hong Kong Companies Ordinance (Cap. 622).

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 (i.e. year beginning 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

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 carried out 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 category: loans and receivables and available for sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

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

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.10.2 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 financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as "gains and losses from investment securities".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial assets (continued)

2.10.2 Recognition and measurement (continued)

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 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.

2.13 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 include 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, refer 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.

The recognition period of government grants are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Current and deferred income tax (continued)

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 Employee benefit expenses

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

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

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

2.22 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(i) Sales of medical products are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed. Sales are shown net of sales taxes and discounts, and after eliminating sales within the Group.

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

Subject to the terms as stated in the technology transfer agreements and the buyers' success in commercialisation of the technology being transferred, the 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 under innovative pharmaceuticals research and development agreement are recognised as other income when the services are rendered, by reference to stage of completion of the specific performance requirements according to the contractual terms. Milestone payments in connection with research and development or commercialisation agreements are recognised when they are earned in accordance with the applicable performance requirements and contractual terms. Payments received that are related to future performance are deferred and recorded as revenues as they are earned over the specified future performance periods.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

(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 before income tax would have been RMB 2,725,000 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 before income tax would have been RMB 57,000 lower/higher.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

(i) Impairment of investments in subsidiaries and an associate

The Group follows the guidance of IAS 36 to determine when investments in subsidiaries and an associate are impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(ii) Deferred income tax assets

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

(iii) 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 2014 to be written off or written down.

(iv) Government grants related to cost

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

The recognition period of government grants are reviewed, and adjusted if appropriate, at the end of each reporting period.

4 REVENUE

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

	2014	2013
	RMB'000	RMB'000
Sales of medical products	**460,455**	410,847
Exclusive rights (Note (a))	**5,000**	5,000
Technology transfer revenue (Note (b))	**5,445**	78
	470,900	415,925

(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 respectively as revenue in 2014 and 2013 (Note 30).

(b) On 15 July 2014, the Company entered into a technology transfer contract with a pharmaceutical company to transfer Vincristine Sulphate Liposome ("LVCR") for a total consideration of RMB 16,800,000, of which RMB 6,090,000 was received in 2014. LVCR is one of the four existing drug research projects the Group cooperated with Shanghai Pharmaceuticals Holding Co., Ltd. ("SPHCL"), a shareholder of the Company (Note 5 (a)). According to the cooperation agreement, the Group and SPHCL will share equally the future benefits generated from this project. Therefore, RMB 3,045,000 was recognised as revenue in 2014 as the Company completed the respective milestones of the transfer as specified in the contract and economic benefits associated with the completion had flowed to the Company.

On 15 July 2014, the Company entered into a technology transfer contract with a pharmaceutical company to transfer Amphotericin B Liposome for a total consideration of RMB 6,000,000, of which RMB 3,900,000 was received and RMB 2,400,000 was recognised as revenue in 2014 as the Company completed the respective milestones of the transfer as specified in the contract and economic benefits associated with the completion had flowed to the Company.

On 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 to 2013. The last royalty payment of RMB 78,000 was received and recognised as revenue in 2013.

5 OTHER INCOME

	2014 RMB'000	2013 RMB'000
Cooperation agreement with SPHCL (note (a))	**40,029**	27,492
Government grants	**33,173**	14,731
Gains on investments in financial products (note (b))	**6,773**	2,152
Interest income	**864**	1,957
Gains on disposal of property, plant and equipment	**–**	10
Others	**931**	75
	81,770	46,417

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

In 2014, the Company received total payments of RMB 29,893,000 (2013: RMB 26,653,000) from SPHCL under the Agreement, and RMB 40,029,000 (2013: RMB 27,492,000) was recognised as related service income and the balance of deferred revenue as at 31 December 2014 was RMB 381,000 (2013: RMB 10,517,000) (Note 30).

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

6 EXPENSES BY NATURE

	2014 RMB'000	2013 RMB'000
Amortisation of leasehold land payments (Note 15)	790	790
Less: Amounts capitalised in construction in progress	–	(684)
	790	106
Amortisation of deferred costs (included in 'Cost of sales') (Note 18)	1,395	1,014
Amortisation of technical know-how (included in 'Administrative expenses') (Note 17)	276	206
Auditors' remuneration		
– Audit services	1,890	1,238
– Non-audit services	8	308
(Reversal)/Accrual of provision for impairment of receivables (Note 24)	(573)	769
Write-off of inventories (Note 22)	1,474	435
Changes in inventories of finished goods and work in progress	635	5,838
Raw materials and consumables used	30,763	22,775
Depreciation of property, plant and equipment (Note 16)	23,327	14,526
Losses on disposal of property, plant and equipment	51	398
Operating lease rentals in respect of land and buildings	1,145	742
Research and development costs, excluding employee benefit expenses	22,459	7,495
Employee benefit expenses (Note 8)	70,510	64,695
Marketing and sales promotion expenses	223,597	199,313
Post-marketing study expenses	25,140	19,211
Quality inspection expenses	6,918	5,140
Others	12,905	9,773
Total cost of sales, research and development costs, distribution and marketing costs, administrative expenses and other operating expenses	422,710	353,982

7 FINANCE COSTS

	2014 RMB'000	2013 RMB'000
Interest expenses:		
– Bank borrowings wholly repayable within 5 years	**1,870**	5,410
– Loans from government	**–**	30
Net foreign exchange (gains)/losses on financing activities	**(9)**	3,974
	1,861	9,414

8 EMPLOYEE BENEFIT EXPENSES

	2014 RMB'000	2013 RMB'000
Wages and salaries	**54,131**	51,537
Housing subsidies	**3,954**	3,003
Social security costs	**4,463**	4,160
Retirement benefit costs (Note 9)	**7,962**	5,995
Employee benefit expenses including directors', supervisors' and senior managements' emoluments	**70,510**	64,695

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 21% 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 7,962,000 and RMB 5,995,000 for the years ended 31 December 2014 and 31 December 2013, respectively.

10 INCOME TAX EXPENSE

	2014 RMB'000	2013 RMB'000
Current income tax	**14,949**	17,424
Deferred income tax (Note 21)	**2,656**	(2,019)
	17,605	15,405

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. The Company was recognised as a high-tech enterprise, and the applicable tax rate of the Company is 15% in 2014 (2013: 15%). The applicable tax rates of the subsidiaries are 25% in 2014 (2013: 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:

	2014 RMB'000	2013 RMB'000
Profit before income tax	**128,099**	98,946
Tax calculated at the applicable tax rate of 25%	**32,025**	24,737
Effect of tax rate reduction	**(13,399)**	(11,288)
Tax losses not recognised as deferred tax assets	**1,482**	4,606
Additional deduction of research and development expenditures	**(5,078)**	(2,976)
Expenses not deductible for income tax purposes	**150**	352
Differences of prior year income tax annual filing	**(680)**	(270)
Effect of unrealised profits on intra-group transactions	**5,367**	244
Utilisation of previously unrecognised tax losses	**(2,262)**	–
Tax charge	**17,605**	15,405

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 108,408,000 (2013: RMB 97,488,000).

12 DIVIDEND

No interim dividend was declared by the Company in 2014 (2013: Nil).

On 24 March 2015, the Board of Directors recommended the payment of a final dividend of RMB 0.05 (2013: Nil) per ordinary share, totalling RMB 46,150,000 (2013: Nil) for the year ended 31 December 2014. The proposed final dividend in respect of the year ended 31 December 2014 is calculated based on the total number of shares in issue. The payment of the proposed final dividend is to be approved by the shareholders at the Company's forthcoming Annual General Meeting. The financial statements do not reflect this as dividend payable.

	2014 **RMB'000**	2013 RMB'000
Proposed final dividend of RMB 0.05 (2013: nil) per ordinary share	**46,150**	–

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:

	2014 **RMB'000**	2013 RMB'000
Basic salaries and allowances	**2,496**	2,354
Bonus	**2,100**	2,100
Fees	**156**	150
Retirement benefit costs	**123**	121
Social security costs	**93**	88
	4,968	4,813

RMB 320,000 of fees were paid or payable to the independent non-executive directors for the year (2013: RMB 325,000).

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 2014 are as follows:

	Director's fee RMB'000	Basic salaries and allowances RMB'000	Bonus RMB'000	Retirement benefit RMB'000	Social security costs RMB'000	Total RMB'000
Executive Directors						
Mr. Wang Hai Bo (chief executive)	–	1,122	900	46	38	2,106
Mr. Su Yong	–	687	600	46	38	1,371
Mr. Zhao Da Jun	–	687	600	31	17	1,335
Independent Non-executive Directors						
Mr. Zhou Zhong Hui	110	–	–	–	–	110
Mr. Lam Yiu Kin	110	–	–	–	–	110
Mr. Cheng Lin	50	–	–	–	–	50
Mr. Pan Fei	50	–	–	–	–	50
Independent Supervisors						
Mr. Guo Yi Cheng	78	–	–	–	–	78
Mr. Xu Qing	78	–	–	–	–	78
	476	2,496	2,100	123	93	5,288

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 2013 are as follows:

	Director's fee RMB'000	Basic salaries and allowances RMB'000	Bonus RMB'000	Retirement benefit RMB'000	Social security costs RMB'000	Total RMB'000
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

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

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

	2014	2013
Directors	**3**	3
Non-directors	**2**	2
	5	5

The emoluments fell within the following bands:

	2014	2013
Emolument bands (in HK dollar)		
HKD 2,500,000 – HKD 3,000,000	**1**	1
HKD 1,500,000 – HKD 2,000,000	**4**	4
	5	5

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

	2014 RMB'000	2013 RMB'000
Basic salaries and allowances	**1,374**	1,296
Bonus	**1,100**	1,050
Retirement benefit costs	**92**	90
Social security costs	**76**	72
	2,642	2,508

(iv) During the years ended 31 December 2014 and 2013, 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 is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2014	2013
Profit attributable to shareholders of the Company (RMB'000)	**118,258**	87,218
Weighted average number of ordinary shares in issue ('000)	**923,000**	864,352
Basic earnings per share (RMB)	**0.1281**	0.1009

There is no difference between the basic and diluted earnings per share for the years ended 31 December 2014 and 2013 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**	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net book value at beginning of the year	**33,340**	34,130	**3,967**	4,073
Amortisation	**(790)**	(790)	**(106)**	(106)
Net book value at end of the year	**32,550**	33,340	**3,861**	3,967

The original lease terms of the land use rights of the Group held in the PRC are from 47 to 50 years, and the remaining lease periods are from 37 to 41 years.

As at 31 December 2013, bank borrowings of Taizhou Pharmaceutical with amount of RMB 15,000,000 were secured on leasehold land of Taizhou Pharmaceutical with a net book value of RMB 29,371,777 (31 December 2014: Nil) (Note 29).

16 PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY

(i) The property, plant and equipment of the Group for the years ended 31 December 2014 and 31 December 2013 are as follows:

	Plant and machinery RMB'000	Furniture, fixtures and computer equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost					
At 1 January 2013	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
Additions	**28,773**	**1,202**	**18**	**18,865**	**48,858**
Transfer upon completion	**20,326**	**23**	**–**	**(20,349)**	**–**
Disposals	**(1,000)**	**(268)**	**–**	**–**	**(1,268)**
At 31 December 2014	**348,784**	**6,942**	**2,371**	**7,289**	**365,386**
Accumulated depreciation					
At 1 January 2013	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
Charge for the year	**25,902**	**1,027**	**325**	**–**	**27,254**
Disposals	**(434)**	**(238)**	**–**	**–**	**(672)**
At 31 December 2014	**75,421**	**3,177**	**1,048**	**–**	**79,646**
Net book value					
At 31 December 2014	**273,363**	**3,765**	**1,323**	**7,289**	**285,740**
At 31 December 2013	250,732	3,597	1,630	8,773	264,732

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

(i) The property, plant and equipment of the Group for the years ended 31 December 2014 and 31 December 2013 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:

	2014 **RMB'000**	2013 RMB'000
Cost of sales	**7,688**	4,504
Research and development expenses	**8,427**	4,846
Distribution and marketing expenses	**5,091**	3,783
Administrative expenses	**2,121**	1,393
Deferred costs	**3,927**	631
	27,254	15,157

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

(ii) The property, plant and equipment of the Company for the years ended 31 December 2014 and 31 December 2013 are as follows:

	Plant and machinery RMB'000	Furniture, fixtures and computer equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost					
At 1 January 2013	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
Additions	**15,245**	**1,131**	**–**	**18,865**	**35,241**
Transfer upon completion	**20,326**	**23**	**–**	**(20,349)**	**–**
Disposals	**(644)**	**(254)**	**–**	**–**	**(898)**
At 31 December 2014	**174,117**	**5,999**	**2,248**	**7,289**	**189,653**
Accumulated depreciation					
At 1 January 2013	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
Charge for the year	**13,822**	**852**	**295**	**–**	**14,969**
Disposals	**(410)**	**(225)**	**–**	**–**	**(635)**
At 31 December 2014	**58,719**	**2,798**	**1,004**	**–**	**62,521**
Net book value					
At 31 December 2014	**115,398**	**3,201**	**1,244**	**7,289**	**127,132**
At 31 December 2013	93,883	2,928	1,539	8,773	107,123

17 TECHNICAL KNOW-HOW – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost				
At beginning of the year	**5,283**	4,623	**3,602**	2,976
Additions (Note (a))	**1,044**	660	**24,998**	626
At end of the year	**6,327**	5,283	**28,600**	3,602
Accumulated amortisation				
At beginning of the year	**3,184**	2,978	**2,901**	2,851
Charge for the year	**276**	206	**107**	50
At end of the year	**3,460**	3,184	**3,008**	2,901
Net book value				
At end of the year	**2,867**	2,099	**25,592**	701

(a) On 1 December 2014, the Company entered into a technical know-how transfer agreement with Taizhou Pharmaceutical to acquire certain technical know-how relating to recombinant human parathyroid hormone ("PTH") at a total consideration of RMB 40,000,000.

As at 31 December 2014, certain milestone of the transfer was achieved and related payments of RMB 24,151,000 were made by the Company to Taizhou Pharmaceutical.

18 DEFERRED COSTS – GROUP AND COMPANY

(i) The deferred costs of the Group for the year ended 31 December 2014 and 31 December 2013 are as follows:

	Deferred development costs RMB'000	Deferred costs of exclusive rights RMB'000	Total RMB'000
Cost			
At 1 January 2013	10,349	1,315	11,664
Capitalization of costs	5,194	–	5,194
At 31 December 2013	15,543	1,315	16,858
Capitalization of costs	8,529	–	8,529
At 31 December 2014	**24,072**	**1,315**	**25,387**
Accumulated amortisation			
At 1 January 2013	5,085	762	5,847
Charge for the year	759	255	1,014
At 31 December 2013	5,844	1,017	6,861
Charge for the year	**1,140**	**255**	**1,395**
At 31 December 2014	**6,984**	**1,272**	**8,256**
Net book value			
At 31 December 2014	**17,088**	**43**	**17,131**
At 31 December 2013	9,699	298	9,997

18 DEFERRED COSTS – GROUP AND COMPANY (continued)

(ii) The deferred costs of the Company for the year ended 31 December 2014 and 31 December 2013 are as follows:

	Deferred development costs RMB'000	Deferred costs of exclusive rights RMB'000	Total RMB'000
Cost			
At 1 January 2013	6,286	1,315	7,601
Capitalization of costs	–	–	–
At 31 December 2013 and 31 December 2014	6,286	1,315	7,601
Accumulated amortisation			
At 1 January 2013	5,085	762	5,847
Charge for the year	759	255	1,014
At 31 December 2013	5,844	1,017	6,861
Charge for the year	**442**	**255**	**697**
At 31 December 2014	**6,286**	**1,272**	**7,558**
Net book value			
At 31 December 2014	**–**	**43**	**43**
At 31 December 2013	442	298	740

19 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2014 RMB'000	2013 RMB'000
Unlisted equity investments, at cost		
At beginning of the year	84,498	82,998
Additions (Note (a))	–	1,500
At end of the year	84,498	84,498
Impairment charge		
At beginning of the year	(3,885)	(3,885)
Additions (Note (b))	(9,750)	–
At end of the year	(13,635)	(3,885)
Net book value		
At end of the year	70,863	80,613

(a) On 5 November 2012, the Company established Tracing with Shanghai Youni Bio-tech Co., Ltd. ("Youni") 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. In September 2013, Tracing received all the registered capital, including RMB 8,400,000 from the Company.

(b) In 2014, the long-term equity investment in Ba Dian was fully impaired.

19 INVESTMENTS IN SUBSIDIARIES – COMPANY (continued)

As at 31 December 2014, 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. (上海摩根談國際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. (上海靶點藥物有限公司)	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

The English names of the subsidiaries are translation made by management of the Company as they do not have official English names.

19 INVESTMENTS IN SUBSIDIARIES – COMPANY (continued)

Material non-controlling interests

The total non-controlling interest as at 31 December 2014 is RMB 25,444,000, of which RMB 20,280,000 is for Taizhou Pharmaceutical and RMB 5,208,000 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.

Summarised balance sheet

	Taizhou Pharmaceutical		Tracing	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Assets	**27,867**	33,478	**4,607**	7,019
Liabilities	**(96,793)**	(78,045)	**(987)**	(2,893)
Total current net assets	**(68,926)**	(44,567)	**3,620**	4,126
Non-current				
Assets	**214,543**	247,565	**8,413**	10,727
Liabilities	**(18,536)**	(54,628)	**(198)**	–
Total non-current net assets	**196,007**	192,937	**8,215**	10,727
Net assets	**127,081**	148,370	**11,835**	14,853

19 INVESTMENTS IN SUBSIDIARIES – COMPANY (continued)

Material non-controlling interests (continued)

Summarised statement of comprehensive income

	Taizhou Pharmaceutical		Tracing	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	24,636	38	5,512	5,069
Loss before income tax	(21,289)	(12,058)	(3,018)	(80)
Income tax expense	–	–	–	–
Loss for the year	(21,289)	(12,058)	(3,018)	(80)
Other comprehensive income	–	–	–	–
Total comprehensive loss for the year	(21,289)	(12,058)	(3,018)	(80)
Total comprehensive loss attributable to non-controlling interests	(6,436)	(3,645)	(1,328)	(32)

Summarised statement of cash flows

	Taizhou Pharmaceutical		Tracing	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Cash generated from/(used in) operations	26,421	59,531	(2,941)	783
Interest paid	(1,870)	(2,626)	–	–
Net cash generated from/(used in) operating activities	24,551	56,905	(2,941)	783
Net cash generated from/(used in) investing activities	(16,663)	(26,567)	39	(2,487)
Net cash used in financing activities	(15,000)	(10,000)	–	–
Net increase/(decrease) in cash and cash equivalents	(7,112)	20,338	(2,902)	(1,704)
Cash and cash equivalents at beginning of the year	24,237	3,899	5,490	7,194
Cash and cash equivalents at end of the year	17,125	24,237	2,588	5,490

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

20 INVESTMENT IN AN ASSOCIATE – GROUP AND COMPANY

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted equity investments, original cost				
At beginning and end of the year	7,200	7,200	7,200	7,200
Accumulated share of results				
At beginning and end of the year	(6,867)	(6,867)	–	–
Impairment charge				
At beginning and end of the year	(333)	(333)	(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

This associate is unlisted and immaterial to the Group.

21 DEFERRED INCOME TAX ASSETS – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets:				
– Deferred tax assets to be recovered after more than one year	**212**	295	**1,622**	254
– Deferred tax assets to be recovered within one year	**3,515**	6,154	**3,491**	5,811
	3,727	6,449	**5,113**	6,065
Deferred tax liabilities:				
– Deferred tax liabilities to be settled after more than one year	**–**	–	**–**	–
– Deferred tax liabilities to be settled within one year	**–**	(66)	**–**	(66)
	–	(66)	**–**	(66)
Deferred tax assets (net)	**3,727**	6,383	**5,113**	5,999

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
At beginning of the year	**6,383**	4,364	**5,999**	4,141
(Charged)/Credited to income tax expense (Note 10)	**(2,656)**	2,019	**(886)**	1,858
At end of the year	**3,727**	6,383	**5,113**	5,999

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

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 123,936,000 and RMB 114,650,000 as at 31 December 2014 and 31 December 2013 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.

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 RMB'000
At 1 January 2013	(180)
Credited to income tax expense	114
At 31 December 2013	(66)
Credited to income tax expense	66
At 31 December 2014	**–**

Deferred income tax assets (on gross basis) – Group

	Accruals RMB'000	**Provisions RMB'000**	**Total RMB'000**
At 1 January 2013	4,370	174	4,544
Credited to income tax expense	1,784	121	1,905
At 31 December 2013	6,154	295	6,449
Charged to income tax expense	(2,639)	(83)	(2,722)
At 31 December 2014	**3,515**	**212**	**3,727**

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

Deferred income tax assets (on gross basis) – Company

	Accruals RMB'000	Provisions RMB'000	Total RMB'000
At 1 January 2013	4,166	155	4,321
Credited to income tax expense	1,645	99	1,744
At 31 December 2013	5,811	254	6,065
Credited/(Charged) to income tax expense	(2,320)	1,368	(952)
At 31 December 2014	**3,491**	**1,622**	**5,113**

22 INVENTORIES – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**4,490**	5,663	**2,767**	3,938
Production supplies and consumables	**417**	194	**–**	–
Work in progress	**7,237**	7,252	**6,976**	7,252
Finished goods	**1,839**	2,459	**1,154**	1,638
	13,983	15,568	**10,897**	12,828

During the year ended 31 December 2014, a provision of RMB 1,474,000 was made to inventories (2013: RMB 435,000). The provision amount of RMB 1,474,000 was written off against the related inventory balances in 2014 (2013: RMB 435,000).

The cost of inventories recognised as expense and included in "Cost of sales" amounted to RMB 34,671,000 (2013: RMB 28,594,000).

23 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

(i) The financial instruments by category of the Group as at 31 December 2014 and 2013 are as follows:

	Loans and receivables	
	2014	2013
	RMB'000	RMB'000
Assets as per balance sheet		
Trade receivables, other receivables and deposits	**92,321**	72,750
Amount due from a related party	**6,854**	1,798
Cash and cash equivalents	**356,097**	324,927
	455,272	399,475

	Financial liabilities at amortised cost	
	2014	2013
	RMB'000	RMB'000
Liabilities as per balance sheet		
Borrowings	**25,000**	40,000
Trade payables, other payables and accruals excluding non-financial liabilities	**33,217**	55,038
Amounts due to related parties	**3,049**	–
	61,266	95,038

(ii) The financial instruments by category of the Company as at 31 December 2014 and 013 are as follows:

	Loans and receivables	
	2014	2013
	RMB'000	RMB'000
Assets as per balance sheet		
Trade receivables, other receivables and deposits	**91,225**	68,750
Amount due from a related party	**6,854**	1,714
Amounts due from subsidiaries	**66,856**	55,962
Cash and cash equivalents	**333,587**	290,833
	498,522	417,259

23 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY (continued)

(ii) The financial instruments by category of the Company as at 31 December 2014 and 2013 are as follows (continued):

	Financial liabilities at amortised cost	
	2014	2013
	RMB'000	RMB'000
Liabilities as per balance sheet		
Trade payables, other payables and accruals excluding non-financial liabilities	**31,960**	49,369
Amount due to a related party	**3,045**	–
Amount due to a subsidiary	**269**	–
	35,274	49,369

24 TRADE RECEIVABLES – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accounts receivable (Note (a))	**72,604**	64,832	**71,765**	61,524
Less: Provision for impairment	**(1,174)**	(1,756)	**(963)**	(1,593)
Accounts receivable-net	**71,430**	63,076	**70,802**	59,931
Notes receivable (Note (b))	**14,702**	3,910	**14,702**	3,910
	86,132	66,986	**85,504**	63,841

As at 31 December 2014 and 2013, the fair value of the trade receivables approximated their carrying amounts, which are all denominated in RMB.

24 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 2014 and 2013, are as follows:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accounts receivable-gross				
– Within credit terms	**56,320**	55,315	**55,801**	53,397
– Past due within 30 days	**11,231**	3,712	**11,231**	3,430
– Past due over 30 days and within 60 days	**641**	1,674	**641**	1,198
– Past due over 60 days and within 90 days	**238**	600	**238**	401
– Past due over 90 days and within one year	**3,390**	2,231	**3,243**	1,874
– Past due over one year	**784**	1,300	**611**	1,224
	72,604	64,832	**71,765**	61,524

As at 31 December 2014, trade receivables of RMB 16,284,000 (2013: RMB 9,517,000) were impaired and provided for. The amount of provision was RMB 1,174,000 (2013: RMB 1,756,000). As at 31 December 2014 and 2013, the accounts receivable ageing over one year were fully impaired.

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
At beginning of the year	**1,756**	1,012	**1,593**	938
(Reversal)/Accrual of provision for impairment of receivables	**(573)**	769	**(630)**	680
Receivables written off during the year as uncollectable	**(9)**	(25)	**–**	(25)
At end of the year	**1,174**	1,756	**963**	1,593

24 TRADE RECEIVABLES – GROUP AND COMPANY (continued)

(a) (continued)

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.

(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.

25 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Value-added tax recoverable	**8,528**	7,462	**–**	–
Prepayments	**1,674**	7,206	**1,348**	6,557
Advances to employees	**4,592**	4,626	**4,511**	4,254
Deposits	**198**	157	**144**	103
Others	**1,397**	981	**1,066**	551
	16,389	20,432	**7,069**	11,465

26 AMOUNT DUE FROM A RELATED PARTY – GROUP AND COMPANY

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

27 AMOUNTS DUE FROM SUBSIDARIES – COMPANY

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

28 CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**348,502**	317,613	**326,540**	284,047
Deposits in other financial institutions (Note (a))	**7,595**	7,314	**7,047**	6,786
	356,097	324,927	**333,587**	290,833
Cash and bank balances denominated in				
– RMB ('000)	**355,723**	322,098	**333,213**	288,004
– HKD ('000)	**374**	2,829	**374**	2,829
	356,097	324,927	**333,587**	290,833

(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%-4.50% per annum for the year ended 31 December 2014 (2013: 0.35%-2.86%).

29 BORROWINGS – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current				
Long-term bank borrowings,				
unsecured (note (a))	**25,000**	25,000	**–**	–
Long-term bank borrowings, secured	**–**	15,000	**–**	–
Less: Current portion	**(25,000)**	(15,000)	**–**	–
	–	25,000	**–**	–
Current				
Current portion of long-term bank				
borrowings, unsecured (note (a))	**25,000**	–	**–**	–
Current portion of long-term bank				
borrowings, secured	**–**	15,000	**–**	–
	25,000	15,000	**–**	–

(a) As at 31 December 2013, the long-term bank borrowings of RMB 40,000,000 were taken by Taizhou Pharmaceutical and bore an annual interest rate of 6.40% based on the market rate published by People's Bank of China on that day. Among the long-term bank borrowings, RMB 15,000,000 was secured by the leasehold land of Taizhou Pharmaceutical (note 15), and was 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 long-term bank borrowing of RMB 15,000,000 was repaid in March 2014.

As at 31 December 2014, the remaining long-term bank borrowing of RMB 25,000,000, which was guaranteed by the Company, bore an annual interest rate of 6.00% based on the market rate published by People's Bank of China on that day and was due for repayment on 20 March 2015.

29 BORROWINGS – GROUP AND COMPANY (continued)

The carrying amount and fair value of the non-current borrowing is as follows:

	Carrying amount		Fair value	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Long-term bank borrowing	**–**	25,000	**–**	25,000

The fair value of current borrowing equals its carrying amount, as the impact of discounting is not significant. As at 31 December 2013, the 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 on that day and is within level 2 of the fair value hierarchy.

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:

	2014	2013
	RMB'000	RMB'000
Within one year	**25,000**	40,000

As at 31 December 2014 and 2013, the Group's and the Company's borrowings were repayable as follows:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**25,000**	15,000	**–**	–
Between 1 and 2 years	**–**	25,000	**–**	–
	25,000	40,000	**–**	–

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Wholly repayable within 5 years	**25,000**	40,000	**–**	–

30 DEFERRED REVENUE – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Government grants	**42,732**	40,962	**16,272**	4,690
Exclusive rights	**833**	5,833	**833**	5,833
Cooperation Agreement with SPHCL (Note 5(a))	**381**	10,517	**381**	3,096
	43,946	57,312	**17,486**	13,619
Less: Amount to be realised within one year	**(16,992)**	(21,665)	**(9,265)**	(11,290)
	26,954	35,647	**8,221**	2,329

(i) The movement in deferred revenue of the Group during the years ended 31 December 2014 and 31 December 2013 are as follows:

	Government grants	Exclusive rights (Note 4)	Cooperation Agreement with SPHCL (Note 5)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	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
Additions	**34,135**	**–**	**29,893**	**64,028**
Transfer to income	**(32,365)**	**(5,000)**	**(40,029)**	**(77,394)**
At 31 December 2014	**42,732**	**833**	**381**	**43,946**

30 DEFERRED REVENUE – GROUP AND COMPANY (continued)

(ii) The movement in deferred revenue of the Company during the years ended 31 December 2014 and 31 December 2013 are as follows:

	Government grants RMB'000	Exclusive rights RMB'000	Cooperation Agreement with SPHCL RMB'000	Total RMB'000
At 1 January 2013	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
Additions	**30,395**	**–**	**12,972**	**43,367**
Transfer to income	**(18,813)**	**(5,000)**	**(15,687)**	**(39,500)**
At 31 December 2014	**16,272**	**833**	**381**	**17,486**

31 TRADE PAYABLES – GROUP AND COMPANY

	Group		Company	
	2014 RMB'000	2013 RMB'000	**2014 RMB'000**	2013 RMB'000
Accounts payable (note (a))	**2,789**	8,843	**2,123**	7,450

As at 31 December 2014 and 2013, 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.

31 TRADE PAYABLES – GROUP AND COMPANY (continued)

(a) As at 31 December 2014 and 2013, the ageing analysis of accounts payable based on invoice date are as follows:

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
– Within 30 days	2,509	7,924	1,843	6,531
– 31 days to 60 days	31	551	31	551
– 61 days to 90 days	–	4	–	4
– Over 90 days but less than one year	18	201	18	201
– Over one year	231	163	231	163
	2,789	8,843	2,123	7,450

32 AMOUNTS DUE TO RELATED PARTIES – GROUP

The balances represent trade balances due to SPHCL and SPDCL, which are unsecured, interest free and repayable on demand.

33 AMOUNT DUE TO A SUBSIDIARY – COMPANY

The balance represents trade balance due to Tracing, which is unsecured, interest free and repayable on demand.

34 SHARE CAPITAL

Authorised, issued and fully paid:

	Number of shares '000	Amount RMB'000
At 1 January 2013	710,000	71,000
Placing of H Shares (note (a))	142,000	14,200
Issuance of domestic restricted shares (note (b))	71,000	7,100
At 31 December 2013 and 31 December 2014	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. Pursuant to the scheme, the Company granted 35,500,000 domestic shares as restricted shares to directors, senior management, mid-level management and key research staff of the Group on 24 June 2013 and 21 October 2013, respectively, at a price of RMB 0.51 with a par value of RMB 0.10 each. Upon completion of the grants of 71,000,000 domestic shares, the share capital of the Company was increased to RMB 92,300,000.

35 RESERVES – GROUP AND COMPANY

(i) The reserves of the Group attributable to shareholders of the Company for the years ended 31 December 2014 and 31 December 2013 are as follows:

	Capital accumulation reserve (Note a) RMB'000	Statutory common reserve fund (Note b) RMB'000	(Accumulated losses)/ Retained earnings (Note c) RMB'000	Total RMB'000
At 1 January 2013	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
Profit for the year 2014	**–**	**–**	**118,258**	**118,258**
Appropriation to statutory reserve	**–**	**10,841**	**(10,841)**	**–**
At 31 December 2014	**412,211**	**27,009**	**119,455**	**558,675**

35 RESERVES – GROUP AND COMPANY (continued)

(ii) The reserves of the Company for the years ended 31 December 2014 and 31 December 2013 are as follows:

	Capital accumulation reserve (Note a) RMB'000	Statutory common reserve fund (Note b) RMB'000	Retained earnings (Note c) RMB'000	Total RMB'000
At 1 January 2013	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
Profit for the year 2014	**–**	**–**	**108,408**	**108,408**
Appropriation to statutory reserve	**–**	**10,841**	**(10,841)**	**–**
At 31 December 2014	**315,985**	**27,009**	**217,616**	**560,610**

(a) Capital accumulation reserve includes share premium arising from the issue of shares at a price in excess of their par value 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 217,616,000 as at 31 December 2014 (2013: RMB 120,049,000).

36 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before income tax to cash generated from operations

	2014 RMB'000	2013 RMB'000
Profit before income tax	128,099	98,946
Adjustments for:		
Amortisation of leasehold land payments (Note 6)	790	106
Amortisation of technical know-how (Note 17)	276	206
Amortisation of deferred costs (Note 18)	1,395	1,014
Write-off of inventories (Note 22)	1,474	435
(Reversal)/Accrual of provision for impairment of receivables (Note 24)	(573)	769
Depreciation of property, plant and equipment (Note 16)	23,327	14,526
Gains on investments in financial products (Note 5)	(6,773)	(2,152)
Losses on disposal of property, plant and Equipment-net (Note 5 and Note 6)	51	388
Interest expenses (Note 7)	1,870	5,440
Interest income (Note 5)	(864)	(1,957)
Changes in working capital:		
– Trade and other receivables and amount due from a related party	(19,586)	10,086
– Inventories	111	(9,060)
– Trade and other payables and amounts due to related parties	(10,008)	(25,361)
– Deferred revenue	(13,366)	13,698
Cash generated from operations	106,223	107,084

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 2014 and 2013.

(i) Transactions

	2014	2013
	RMB'000	RMB'000
With SPDCL:		
Sales of medical products	**17,575**	13,869
With SPHCL:		
Cash received under the Cooperation Agreement (Note 5 (a))	**29,893**	26,653

Products are sold and services are provided based on the price lists in force and terms that would be available to third parties.

(ii) The related party balances as at 31 December 2014 and 31 December 2013 are disclosed in Note 26 and Note 32.

(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:

	2014	2013
	RMB'000	RMB'000
Basic salaries and allowances	**5,015**	4,730
Bonus	**4,050**	4,000
Retirement benefit and social security costs	**507**	491
	9,572	9,221

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. The outcomes of the Group's research and development activities will be given preference to be used by the Group for its own commercialization. As a result of such strategic shift in its business focus, the Group only received and recognised RMB 78,000 and RMB 5,445,000 as the revenue generated from technology transfer in 2013 and 2014 respectively. Accordingly, the management considers that the Group only operates a single business segment starting from 2013 and hence no segment information is presented.

The Company and all its subsidiaries operate in the PRC and the Group's revenue is principally derived in the PRC.

Revenues of approximately RMB 269,172,000 (2013: RMB 213,995,000) are derived from a single external customer. These revenues are attributable to the sales of medical products.

39 COMMITMENTS

(i) Operating lease commitments – Group and Company

As at 31 December 2014 and 2013, the Group had future aggregate minimum lease payments due under non-cancellable operating leases in respect of properties as follows:

	2014 RMB'000	2013 RMB'000
No later than 1 year	557	549
Later than 1 year and no later than 5 years	148	617
	705	1,166

39 COMMITMENTS (continued)

(i) Operating lease commitments – Group and Company (continued)

As at 31 December 2014 and 2013, the Company had future aggregate minimum lease payments due under non-cancellable operating leases in respect of properties as follows:

	2014 RMB'000	2013 RMB'000
No later than 1 year	324	446
Later than 1 year and no later than 5 years	70	130
	394	576

(ii) Capital commitments – Group and Company

Capital expenditure contracted for as at 31 December 2014 and 2013 but not yet incurred by the Group are as follows:

	2014 RMB'000	2013 RMB'000
Property, plant and equipment	2,098	1,313

Capital expenditure contracted for as at 31 December 2014 and 2013 but not yet incurred by the Company are as follows:

	2014 RMB'000	2013 RMB'000
Property, plant and equipment	2,098	247

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 2014 and 31 December 2013.

(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) and bank borrowings (Note 29).

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.

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 2014, if interest rates on borrowings had been 10% higher/lower with all other variables held constant, profit before income tax for the year would have been RMB 187,000 (2013: 10%, RMB 192,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

40 FINANCIAL RISK MANAGEMENT (continued)

(i) Financial risk factors (continued)

(b) Credit risk

The carrying amount of cash at bank and on hand, trade receivables, amount due from a related party, amounts due from subsidiaries and other receivables and deposits represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of deposits and cash were placed in the Big Four State-owned banks* and other listed banks without significant credit risk.

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

*Big Four State-owned banks: Bank of China, Industrial and Commercial Bank of China, China Construction Bank and Agricultural Bank of China.

(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.

40 FINANCIAL RISK MANAGEMENT (continued)

(i) Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
At 31 December 2014					
Bank borrowings	**25,375**	**–**	**–**	**–**	**25,375**
Trade and other payables	**36,266**	**–**	**–**	**–**	**36,266**
At 31 December 2013					
Bank borrowings	15,240	27,000	–	–	42,240
Trade and other payables	55,038	–	–	–	55,038
Company					
At 31 December 2014					
Trade and other payables	**35,274**	**–**	**–**	**–**	**35,274**
At 31 December 2013					
Trade and other payables	49,369	–	–	–	49,369

(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. As at 31 December 2014 and 2013, cash and cash equivalents is much more than total borrowings of the Group, therefore, the gearing ratio is not applicable.

40 FINANCIAL RISK MANAGEMENT (continued)

(iii) Fair value estimation

The carrying amounts of the Group's cash and bank balances, trade receivables, amount due from a related party, other receivables, deposits and prepayments, trade payables, amounts due to related parties 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 SUBSEQUENT EVENTS

On 12 December 2014, the Company entered into a share transfer agreement with the shareholders of Youni, pursuant to which the Company conditionally agreed to acquire and Youni's shareholders conditionally agreed to sell the 90% shares in Youni at a cash consideration of RMB 22,500,000. The Company paid the consideration on 15 January 2015.

The acquisition will help the Company further integrate the original in-vitro diagnostic reagent platform of Tracing, which in turn will lay a foundation for expanding the business of the Group to large diagnostic reagent sector, and the acquisition is also in line with the industry distribution and development trend of the diagnostics business of the Group.

In January 2015, the acquisition was completed.

42 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 24 March 2015.