



上海復旦張江生物醫藥股份有限公司
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.*
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 8231)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006**

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

The board of Directors (“the Board”) of the Company announces the audited consolidated results of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2006 as follows:

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006**

<i>(All amounts are shown in RMB thousands unless otherwise stated)</i>	<i>Notes</i>	Year ended 31 December	
		2006	2005
Turnover	3	19,764	20,117
Cost of sales		<u>(9,413)</u>	<u>(12,093)</u>
Gross profit		10,351	8,024
Other income		3,422	6,571
Research and development costs		(15,570)	(24,438)
Distribution and marketing costs		(7,285)	(5,678)
Administrative expenses		(10,726)	(12,417)
Other operating expenses		<u>(1,501)</u>	<u>(3,819)</u>
Operating loss	4	(21,309)	(31,757)
Finance costs		(712)	—
Share of results of an associate		<u>264</u>	<u>(2,900)</u>
Loss before income tax		(21,757)	(34,657)
Income tax (charge)/credit	5	<u>(273)</u>	<u>4,301</u>
Loss for the year		<u>(22,030)</u>	<u>(30,356)</u>
Attributable to:			
Shareholders of the Company		(20,956)	(29,085)
Minority interests		<u>(1,074)</u>	<u>(1,271)</u>
		<u>(22,030)</u>	<u>(30,356)</u>
Basic loss per share for loss attributable to the shareholders of the Company (RMB)	7	<u>(0.0295)</u>	<u>(0.0410)</u>

**CONSOLIDATED BALANCE SHEET OF THE GROUP
AND BALANCE SHEET OF THE COMPANY
AS OF 31 DECEMBER 2006**

<i>(All amounts are shown in RMB thousands unless otherwise stated)</i>	<i>Notes</i>	Group		Company	
		As of 31 December 2006	2005	As of 31 December 2006	2005
Non-current assets					
Leasehold land payments		11,416	8,864	11,416	8,864
Property, plant and equipment		56,051	51,565	54,678	49,661
Technical know-how		2,294	3,794	762	1,213
Deferred development costs		6,894	8,713	6,894	8,713
Investments in subsidiaries		—	—	12,348	15,250
Investment in an associate		607	55	7,200	7,200
Deferred income tax assets		<u>7,513</u>	<u>7,786</u>	<u>7,513</u>	<u>7,786</u>
		<u>84,775</u>	<u>80,777</u>	<u>100,811</u>	<u>98,687</u>
Current assets					
Inventories		2,927	1,963	2,927	1,963
Trade receivables	8	7,362	1,158	7,362	1,158
Other receivables, deposits and prepayments		735	1,285	451	1,005
Amounts due from related companies		—	1,000	—	1,000
Amount due from a shareholder		—	250	—	250
Amount due from a subsidiary		—	—	975	—
Available-for-sale investments		38	475	38	475
Term deposits in bank with maturities of three to twelve months		5,000	6,242	5,000	6,242
Cash and cash equivalents		<u>44,180</u>	<u>49,755</u>	<u>40,948</u>	<u>46,458</u>
		<u>60,242</u>	<u>62,128</u>	<u>57,701</u>	<u>58,551</u>
Total assets		<u><u>145,017</u></u>	<u><u>142,905</u></u>	<u><u>158,512</u></u>	<u><u>157,238</u></u>
Non-current liabilities					
Borrowings		20,000	—	20,000	—
Loan from municipal government authorities		<u>11,000</u>	<u>—</u>	<u>11,000</u>	<u>—</u>
		<u>31,000</u>	<u>—</u>	<u>31,000</u>	<u>—</u>

<i>(All amounts are shown in RMB thousands unless otherwise stated)</i>	Notes	Group		Company	
		As of 31 December 2006	As of 31 December 2005	As of 31 December 2006	As of 31 December 2005
Current liabilities					
Trade payables	9	602	2,144	401	1,930
Other payables and accruals		7,634	12,090	7,272	11,184
Deferred revenue		2,434	2,294	1,640	1,694
Loans from municipal government authorities		1,650	1,650	1,650	1,650
Amounts due to subsidiaries		—	—	2,285	3,207
Amount due to a shareholder		—	1,000	—	1,000
		<u>12,320</u>	<u>19,178</u>	<u>13,248</u>	<u>20,665</u>
Total liabilities		<u>43,320</u>	<u>19,178</u>	<u>44,248</u>	<u>20,665</u>
Capital and reserves attributable to shareholders of the Company					
Share capital		71,000	71,000	71,000	71,000
Reserves	10	<u>28,608</u>	<u>49,564</u>	<u>43,264</u>	<u>65,573</u>
		99,608	120,564	114,264	136,573
Minority interests		<u>2,089</u>	<u>3,163</u>	—	—
Total equity		<u>101,697</u>	<u>123,727</u>	<u>114,264</u>	<u>136,573</u>
Total equity and liabilities		<u>145,017</u>	<u>142,905</u>	<u>158,512</u>	<u>157,238</u>
Net current assets		<u>47,922</u>	<u>42,950</u>	<u>44,453</u>	<u>37,886</u>
Total assets less current liabilities		<u>132,697</u>	<u>123,727</u>	<u>145,264</u>	<u>136,573</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 BACKGROUND INFORMATION

The Company was established in the People's Republic of China ("PRC") on 11 November 1996 as a limited liability company with an initial registered capital of RMB5,295,000.

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

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

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

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

As of the date of issue of these financial statements, the Company has direct interests of 68.75% and 65% in two subsidiaries, Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. ("Morgan-Tan") and Shanghai Ba Dian Medicine Co., Ltd. ("Ba Dian"), respectively.

The Group is principally engaged in research, development and selling of self-developed bio-pharmaceutical know-how, carrying out contracted research for customers, manufacturing and selling of diagnostic reagents and the provision of related ancillary services in the PRC.

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

2 BASIS OF PREPARATION

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

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

3 TURNOVER

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

	2006	2005
Technology transfer revenue	7,950	9,500
Sales of diagnostic reagents and the provision of related ancillary services	<u>11,814</u>	<u>10,617</u>
	<u><u>19,764</u></u>	<u><u>20,117</u></u>

4 OPERATING LOSS

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

	2006	2005
Amortisation of leasehold land payments	197	106
Amortisation of deferred development costs (included in 'Cost of sales')	1,819	1,819
Amortisation of technical know-how (included in 'Research and development costs')	1,341	1,416
Amortisation of technical know-how (included in 'Administrative expenses')	159	176
	1,500	1,592
Auditors' remuneration	933	920
(Reversal of) / provision for impairment of receivables	(526)	665
Cost of inventories sold	7,594	10,274
Depreciation of property, plant and equipment	4,634	4,196
Less: amount capitalised in deferred development costs	—	(126)
	4,634	4,070
Loss on disposal of property, plant and equipment	299	2,891
Exchange losses on cash and cash equivalents (included in 'Other operating expenses')	463	951
Operating lease rentals in respect of land and buildings	168	113
Research and development costs (note (a))	15,570	24,438
- Charge during the year	15,570	15,261
- Written off deferred development costs carried forward from prior year	—	9,177
(Profit)/loss on disposal of available-for-sale investments	(280)	64
Provision for impairment of inventories	—	87
	<u><u>—</u></u>	<u><u>87</u></u>

- (a) Research and development costs mainly represent the employee benefit expenses of technical staff involved and the consumables used in the research and development activities which did not satisfy the criteria for capitalization as an asset.

5 INCOME TAX CHARGE/(CREDIT)

	2006	2005
Current income tax	—	—
Deferred tax charge/(credit)	<u>273</u>	<u>(4,301)</u>
	<u>273</u>	<u>(4,301)</u>

The Company is subject to the Income Tax Law of the PRC and the normal income tax rate applicable is 33%. As the Company is recognized as a New and High Technology Enterprise and is operating and registered in the State Level New and High Technology Development Zone, it is entitled to a reduced income tax rate of 15%. Accordingly, the Company is subject to income tax at a rate of 15%.

As the subsidiaries recognised as domestic companies registered in Shanghai Pudong New Area, they are also entitled to the reduced income tax rate of 15%. Accordingly, the subsidiaries are subject to income tax at a rate of 15%.

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

	2006	2005
Loss before income tax	<u>(21,757)</u>	<u>(34,657)</u>
Tax calculated at a tax rate of 15%	(3,264)	(5,199)
Effect of unrecognized tax losses of the Group	3,276	860
Utilization of previously unrecognized tax losses of a subsidiary	—	(25)
Expenses not deductible for tax purpose	<u>261</u>	<u>63</u>
Tax charge/(credit)	<u>273</u>	<u>(4,301)</u>

6 DIVIDENDS

At the meeting on 21 March 2007, the Board recommended not to distribute any dividends in respect of the year ended 31 December 2006.

At the shareholders' Annual General Meeting on 16 June 2006, it was resolved not to distribute any dividends in respect of the year ended 31 December 2005.

7 LOSS PER SHARE

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

	2006	2005
Loss attributable to shareholders of the Company	(20,956)	(29,085)
Weighted average number of ordinary shares in issue (thousands)	710,000	710,000
Basic loss per share (RMB)	<u>(0.0295)</u>	<u>(0.0410)</u>

Diluted loss per share has not been calculated for the years ended 31 December 2006 and 2005 as there were no dilutive potential ordinary shares during the years then ended.

8 TRADE RECEIVABLES — GROUP AND COMPANY

	2006	2005
Accounts receivables (note(a))	1,420	1,158
Notes receivable (note(b))	<u>5,942</u>	<u>—</u>
	<u><u>7,362</u></u>	<u><u>1,158</u></u>

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

	2006	2005
Current to 30 days	491	43
31 days to 60 days	373	506
61 days to 90 days	224	384
Over 90 days but less than one year	468	236
Over one year	<u>1,534</u>	<u>2,905</u>
	3,090	4,074
Less: provision for impairment	<u>(1,670)</u>	<u>(2,916)</u>
	<u><u>1,420</u></u>	<u><u>1,158</u></u>

Customers are generally granted credit term of 90 days.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers. Management believes that no additional credit risks beyond amounts provided for collection losses is inherent in the Group's trade receivables.

(b) Notes receivable are all bank acceptance notes aged less than six months.

(c) Trade receivables are unsecured and interest-free.

9 TRADE PAYABLES

Details of the aging analysis are as follows:

	Group		Company	
	2006	2005	2006	2005
Current to 30 days	96	1,867	95	1,667
31 days to 60 days	9	64	9	64
61 days to 90 days	—	3	—	3
Over 90 days but less than one year	141	1	140	1
Over one year	<u>356</u>	<u>209</u>	<u>157</u>	<u>195</u>
	<u><u>602</u></u>	<u><u>2,144</u></u>	<u><u>401</u></u>	<u><u>1,930</u></u>

Trade payables are unsecured and interest-free.

10. RESERVES

- (i) The reserves of the Group attributable to shareholders of the Company for the years ended 31 December 2006 and 31 December 2005 are as follows:

	Capital accumulation reserve (note a)	Statutory common reserve fund (note b)	Statutory common welfare fund (note c)	Accumulated losses (note d)	Total
At 1 January 2005	115,014	1,709	1,120	(39,194)	78,649
Loss for the year 2005	<u>—</u>	<u>—</u>	<u>—</u>	<u>(29,085)</u>	<u>(29,085)</u>
At 31 December 2005	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(68,279)</u>	<u>49,564</u>
Transfer	—	1,120	(1,120)	—	—
Loss for the year 2006	<u>—</u>	<u>—</u>	<u>—</u>	<u>(20,956)</u>	<u>(20,956)</u>
At 31 December 2006	<u>115,014</u>	<u>2,829</u>	<u>—</u>	<u>(89,235)</u>	<u>28,608</u>

- (ii) The reserves of the Company for the years ended 31 December 2006 and 31 December 2005 are as follows:

	Capital accumulation reserve (note a)	Statutory common reserve fund (note b)	Statutory common welfare fund (note c)	Accumulated losses (note d)	Total
At 1 January 2005	115,014	1,709	1,120	(28,437)	89,406
Loss for the year 2005	<u>—</u>	<u>—</u>	<u>—</u>	<u>(23,833)</u>	<u>(23,833)</u>
At 31 December 2005	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(52,270)</u>	<u>65,573</u>
Transfer	—	1,120	(1,120)	—	—
Loss for the year 2006	<u>—</u>	<u>—</u>	<u>—</u>	<u>(22,309)</u>	<u>(22,309)</u>
At 31 December 2006	<u>115,014</u>	<u>2,829</u>	<u>—</u>	<u>(74,579)</u>	<u>43,264</u>

- (a) The balance in the capital accumulation reserve represents share premium arising from the issue of shares at a price in excess of their par value. 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) Pursuant to certain PRC regulation published in 2006, each of the companies registered in the PRC under the PRC Company Law is required to cease the appropriation of the statutory common welfare fund upon 1 January 2006. The balance brought forward from previous years shall be transferred to statutory common reserve fund.
- (d) In accordance with the Company's Articles of Association, the Company declares dividends based on the lower of retained earnings as reported in accordance with the PRC accounting regulations and that reported in accordance with IFRS. According to the statutory financial statements prepared in accordance with the PRC accounting regulations and the financial statements prepared in accordance with IFRS, there was no distributable reserve as of 31 December 2006 (2005: nil).

11 SEGMENTAL INFORMATION

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

	Year ended 31 December 2006			Year ended 31 December 2005		
	Research and development activities	Sales of diagnostic reagents and the provision of related ancillary services	Total	Research and development activities	Sales of diagnostic reagents and the provision of related ancillary services	Total
Turnover	<u>7,950</u>	<u>11,814</u>	<u>19,764</u>	<u>9,500</u>	<u>10,617</u>	<u>20,117</u>
Segment loss	(9,695)	(697)	(10,392)	(11,880)	(5,229)	(17,109)
Unallocated income			1,305			836
Unallocated costs			<u>(12,670)</u>			<u>(18,384)</u>
Loss before income tax			(21,757)			(34,657)
Income tax (charge)/credit			<u>(273)</u>			<u>4,301</u>
Loss for the year			<u>(22,030)</u>			<u>(30,356)</u>

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

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

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

	Research and development activities	Sales of diagnostic reagents and the provision of related ancillary services	Unallocated activities	Total
31 December 2006				
Segment assets	36,012	36,873	72,132	145,017
Segment liabilities	<u>(34,834)</u>	<u>(1,529)</u>	<u>(6,957)</u>	<u>(43,320)</u>
Net	<u>1,178</u>	<u>35,344</u>	<u>65,175</u>	<u>101,697</u>
Other segment items				
Capital expenditure	7,286	1,338	3,591	12,215
Depreciation	2,549	1,345	740	4,634
Amortisation	1,341	1,965	210	3,516
Reversal of impairment	—	(526)	—	(526)
Other non-cash expenses	<u>76</u>	<u>223</u>	<u>—</u>	<u>299</u>
31 December 2005				
Segment assets	28,149	38,218	76,538	142,905
Segment liabilities	<u>(4,694)</u>	<u>(3,559)</u>	<u>(10,925)</u>	<u>(19,178)</u>
Net	<u>23,455</u>	<u>34,659</u>	<u>65,613</u>	<u>123,727</u>
Other segment items				
Capital expenditure	3,513	14,193	197	17,903
Depreciation	2,253	1,204	739	4,196
Amortisation	1,416	1,965	136	3,517
Impairment charge	—	752	—	752
Other non-cash expenses	<u>2,472</u>	<u>419</u>	<u>951</u>	<u>3,842</u>

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

TURNOVER

The Group's consolidated turnover for the year ended 31 December 2006 amounted to approximately RMB19,764,000, compared to RMB20,117,000 for the same period in 2005. During the year under review, approximately RMB7,950,000 (or 40% of the total turnover) was derived from the income of technology transfer, and the rest of approximately RMB11,814,000 (or 60% of the total turnover) came from the sale of diagnostic products and the provision of the ancillary services. In contrast, approximately RMB9,500,000 (or 47% of the total turnover) was derived from the income of technology transfer, and the rest of approximately RMB10,617,000 (or 53% of the total turnover) came from the sale of diagnostic products and the provision of the ancillary services for the year 2005.

REVENUE FROM TECHNOLOGY TRANSFER

Income recognized from technology transfer for the year 2006 was approximately RMB7,950,000. There's no technology newly transferred during 2006. Technology transfer income recognized came from two contracts, which were signed in previous years, with tasks completed by stages within the period under review as stipulated by the contracts.

REVENUE FROM SALE OF DIAGNOSTIC PRODUCTS AND PROVISION OF RELATED ANCILLARY SERVICES

Revenue of the Group from the sale of diagnostic products and the provision of ancillary services for the year ended 31 December 2006 was RMB11,814,000, increased by 11% from the same period last year. The new product Down's Syndrome antenatal screening system that the Group launched to the market in 2005, has won a certain level of market shares. It's sales income has stepped into a steady upward path, which contributed some results to the Group's sales of diagnostic products.

COST OF SALES

For the year ended 31 December 2006, cost of sales of the Group was RMB9,413,000, while the corresponding figure for the same period last year was RMB12,093,000. Cost of sales reduced by 22% from that of last year, and the ratio of cost of sales to sales also dropped to 48% from 60% for the same period last year.

OPERATING LOSS

For the year ended 31 December 2006, operating loss of the Group was RMB21,309,000, comparing to RMB31,757,000 for the year 2005. Total expense has been cut down by 33%, due to an effective control on costs and expenditure executed by management. Expenditure and other income presented before operating loss are as follows:

- R&D costs decreased to RMB15,570,000 from RMB24,438,000 for that of last year. In 2005, the management determined to further develop a project, which was intended to be transferred according to the original plan, for self-production and sales of the relevant products, and has written off the deferred development costs carried forward from prior years with an amount of RMB9,177,000. This resulted in a significant increase of R&D costs in the year 2005. No such cost incurred for 2006.
- Distribution and marketing costs grew up to RMB7,285,000 from RMB5,678,000 for the same period last year. The group expanded its marketing and sales team during the year and invested a large amount of resource into market exploration for the new product ALA (鹽酸氨酮戊酸).
- Administration and other expenses have also reduced by 14% and 61% respectively as compared to last year, attributed to a tighter control of general administrative fees and other non-operating expenses by the management.
- Other income decreased by 48%. This item mainly comprises of the amortization of government grants. The decrease of this income is caused by a relatively lower level of subsidy granted by the government in recent years than previous years. Along with the conclusion of some R&D projects, most of the grants have been fully amortized before year 2006.

LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The loss attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB22,309,000 and RMB23,833,000 for the years ended 31 December 2006 and 31 December 2005, respectively.

SIGNIFICANT INVESTMENTS

For the year ended 31 December 2006, the Group did not have any significant investments.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the year ended 31 December 2006, the Group did not have any material acquisitions or disposals of subsidiaries and associated companies.

CONTINGENT LIABILITIES

As at 31 December 2006, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

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

BANKING FACILITIES

Aided by the “Technology and Education Promoting Shanghai” project, the Group took a loan of RMB11,000,000 for a period of five years on 12 April 2006. The loan is interest-free for the first three years. Interest has to be paid for the fourth and fifth years.

Assisted by the Pudong “Wise-eye project”, the Group took a bank loan of RMB20,000,000 on 12 July 2006 for a period of three years. Full amount of the interest of the loan is subsidized by the Pudong New Area government.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Company made an announcement on January 4, 2007 to establish a wholly-owned subsidiary Taizhou Fudan Zhangjiang Pharmaceutical Company Limited (“Taizhou Pharmaceutical”) in Taizhou City of Jiangsu Province, with a registered capital of RMB 60 million, which will be contributed by intangible asset valued at RMB40 million and cash of RMB20 million. Taizhou Pharmaceutical will be the production and manufacturing base of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations and investing activities with internally generated financial resources, proceeds from the listing of the Company’s shares on the Hong Kong GEM Board in August 2002, and interest-free and interest-subsidized commercial loans supported by the municipal government authorities. As at 31 December 2006, the Group had outstanding interest-free loans of RMB 12,650,000, of which RMB1,650,000 are unsecured, and an outstanding loan of RMB 20,000,000 with interest fully subsidized.

As at 31 December 2006, the Group had cash and cash equivalents of approximately RMB44,180,000.

The Group’s gearing ratio as at 31 December 2006 was 0.43(31 December 2005: 0.16) which is calculated based on the Group’s total liabilities of RMB43,320,000 (31 December 2005: RMB 19,178,000) and capital and reserves attributable to shareholders of the Company of RMB99,608,000 (31 December 2005: RMB120,564,000).

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

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND SALARIES

As at 31 December 2006, the Group had a total of 162 employees, as compared to 144 employees as at 31 December 2005. Staff costs including directors' remuneration for the year ended 31 December 2006 were RMB14,449,000, and RMB14,289,000 for the year ended 31 December 2005. The salaries and benefits of employees of the Group are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory social welfare plans, are also provided to employees.

BUSINESS REVIEW

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

In respect of R&D, the Group has achieved the following results during the period under review:

- Application has been made to the State Food and Drugs Administration of the PRC ("SFDA") for clinical study on Vincristine liposome(長春新鹼脂質體) for the treatment of tumors, and has been approved to enter into clinical study in March 2007.
- New Drug Certificate and New Drug Registration Approval for Aminolevulinic Acid Hydrochloride (ALA)(鹽酸氨酮戊酸) for the treatment of condyloma acuminata (尖銳濕疣) were granted in February 2007.
- Clinical study on Duxorubicon liposome(鹽酸多柔比星脂質體) for the treatment of tumors has been completed and application for the New Drug Registration Approval is in progress. Meanwhile, clinical study on another application of the product has been approved.
- Application has been made for the New Drug Registration Approval for 兩性霉素 B脂質體 for the treatment of mycotic infection, and has been approved to enter into clinical study in March 2007.

The progress of R&D of the major drugs of the Group up to the end of 2006 is summarized as follows:

Technical platform made	Project name	Application	Progress
Genetic engineering drugs	Recombinant tissue type plasminogen activator (r-tPA)	Heart infarction	Has been transferred retaining technical commission
	Recombinant human parathyroid hormone derivatives (rhPTH)	Osteoporosis	Has been approved to enter into clinical study
	Recombinant human lymphotoxin α -derivatives	Tumor	Has been approved to enter into stage II clinical study
	Recombinant human interleukin-1 receptor antagonist (rhIL-1Ra)	Arthritis	Has been approved to enter into clinical study
	Recombinant Human Tumor Necrosis Recipient Fc Fusion Protein (Etanercept)	Arthritis	Has been approved to enter into clinical study and has transferred domestic and overseas rights respectively, retaining technical commission
Photodynamic therapy drugs	ALA(鹽酸氮酮戊酸)	Condyloma acuminata	New Drug Certificate and New Drug Registration Approval have been granted in February 2007 and Certificate for GMP Certification will soon be granted
	Hemporfin	Port wine stain	Phase II clinical study is in progress
	Deuteporfin	Tumors	Will soon apply to enter into clinical study

Technical platform made	Project name	Application	Progress
Liposome drugs	Duxorubicon liposome (鹽酸多柔比星脂質體)	Tumors	Has applied for the New Drug Registration Approval, and another application has been approved to enter into clinical study
	Vincristine liposome (長春新鹼脂質體)	Tumors	has been approved to enter into clinical study in March 2007
	Amphotericin-B liposome 兩性霉素 B 脂質體)	Dermatitis, epiphyte infection	Has applied for the New Drug Registration Approval
Others	Down's Syndrome antenatal screening system	Down's Syndrome	Has been launched for sale
	HLA Genotyping Chips	Genotyping	Has been launched for sale
	Melberry root alkaloid tablets (桑根鹼片)	Diabetes	Has been transferred
	Unsweet Sugar	Diabetes	Has been approved to enter into clinical study
	Nifeviroc	Diabetes	has been approved to enter into clinical study in March 2007

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

In respect of technology transfers, no new project transfers have been carried out in 2007 as the Group prefers to implement the commercialization of projects in a different way rather than to obtain short-term revenue through technology transfers.

In respect of patents, the Group has been actively protecting its intellectual property rights on its innovative medicines and research results. During the period under review, the Group has applied for 12 invention patents and 3 of which have been granted 3. As at 31 December 2006, the Group has applied for 40 intention patents in aggregate, and 13 of which have been granted.

In respect of commercialization, the Group is dedicated to the marketing of medical diagnostic products series. Meanwhile, in order to match the upcoming production of Aminolevulinic Acid Hydrochloride (ALA) and Duxorubicon liposome, the Group has completed the reconstruction of the relevant production site and has made various pre-production preparations.

Since its establishment, the Group has always been complying with the industrial policies of the State, improving its capacity of developing new drugs, and has obtained the full support by the State, Shanghai municipality and the People's Government of Pudong New Area. During the period under review, the Group has obtained the following supports and awards:

- The Group obtained grants from various levels of government authorities on R&D projects totaling RMB2,371,000.
- As evaluated by the People's Government of Shanghai, the Company became a major project undertaking entity for the Shanghai City Construction with Technology, and has obtained support with an amount of RMB30 million from the Shanghai City Construction & Technology project fund, for the Company's "Development and commercialization of target drugs for tumors and other hyperblastosis" project, of which RMB21 million is in the form of a three-year interest-free loans, and RMB9 million will be a subsidy upon the completion of the project. The project is for a term of three years, and with an aim to sustain major industrial technology projects. Funds obtained in 2006 amounted to RMB11,000,000.
- After the assessment by the People's Government of Pudong New Area, the Company obtained the support of "Wise-eye Project" fund of Pudong New Area for a term of three years. The interest incurred by the Company on a loan of RMB20 million will be paid by the project fund. The "Wise-eye Project" is aimed at providing support to technology enterprises that have intellectual property rights, so as to expedite their commercialization process, enhance their innovative capability, and to actively involve in international competition. The whole amount of the loan has been offered in 2006.

FUTURE PROSPECTS

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

After nearly a decade's R&D, the Group has a large number of drugs which are at the key point of being commercialized. Therefore, the Group is now undergoing the process of conversion from purely R&D to a combination of R&D and commercialization. In the future, the Group will focus its resources in both aspects of R&D and commercialization.

- **R&D**

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

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

New Drug Certificate and New Drug Registration Approval for the photodynamic new drug ALA (鹽酸氨酮戊酸) for the treatment of Condyloma acuminata have been granted, and Certificate for GMP Certification will soon be obtained. The Company is waiting for the New Drug Registration Approval to be granted to Duxorubicon liposome (鹽酸多柔比星脂質體) for the treatment of tumors. These two products are projects to be commercialized soon.

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

Commercialization

The Group's commercialization activities at present are mainly in the field of medical diagnostic products. The Group will continue to promote medical diagnostic products, including Down's Syndrome antenatal screening system and HLA genotyping chips, with an aim to further expand market shares.

To keep in line with the key direction of the Group's R&D, the Group has gradually enhanced the commercialization of the drugs for the treatment of dermal diseases and tumors from 2006. The Group has arranged three drug product lines on both direction, and will steadily launch the products to the market by stages in the next few years, so as to form a product series package on these two directions:

- **Dermal disease drugs**

In respect of the commercialization of dermal disease drugs, New Drug Certificate and New Drug Registration Approval for photodynamic new drug ALA (鹽酸氨酮戊酸) for the treatment of Condyloma acuminata (尖銳濕疣) have been granted. The drug is expected to be launched in the first quarter of 2007. This will be the first drug commercialized in this direction. Condyloma acuminata (尖銳濕疣) is one of the most common sexual

contagious diseases in the modern society, with the morbidity being 20%-30% of all the venereal disease patients, ranking No. 2 or 3. According to the estimations of WHO in 2005, there are actually 16 million to 20 million new venereal disease cases in China every year, while new patient numbers of condyloma acuminata is 3 million — 6 million every year. It can be seen that this drug has a tremendous market capacity.

Subsequent drugs include Hemporfin and Amphotericin-B liposome (兩性霉素 B 脂質體). The Phase II clinical study on Hemporfin, a photodynamic drug for the treatment of port wine stains, is being undertaken. Application has been made for the New Drug Registration Approval for Amphotericin-B liposome (兩性霉素 B 脂質體) for the treatment of intractable dermatitis and Mycotic infection (真菌感染).

- **Tumor treatment drugs**

In respect of the commercialization of drugs for the treatment of tumors, the Company is waiting for the New Drug Registration Approval of Duxorubicon liposome (鹽酸多柔比星脂質體) for the treatment of tumors, and is anticipated to be launched in 2008. This is the first drug in the direction of commercialization. The drug is specially targeted at tumors such as breast cancer, which has become No. 1 disease in female tumor morbidity. According to the estimations of WHO, in 2005, there were approximately 7.6 million people died of various cancers in the world, of which, 500,000 died of breast cancer. According to the estimations, there are approximately 200,000 new discoveries of breast cancer in the PRC. The market capacity of the drug is tremendous.

Subsequent drugs include Vincristine liposome (長春新鹼脂質體) and lymphotoxin α -derivatives (淋巴毒素 α -衍生物). Application has been made for the clinical study for Vincristine liposome (長春新鹼脂質體) for the treatment of malignant tumors, while lymphotoxin α -derivatives (淋巴毒素 α -衍生物) for the treatment of tumors has been approved to enter into stage II of the clinical study.

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

Name of drugs launching time*	Indications	Estimated
ALA (鹽酸氮酮戊酸)	Condyloma acuminata	2007
Duxorubicon liposome (鹽酸多柔比星脂質體)	Tumors	2008
Amphotericin-B liposome (兩性霉素 B 脂質體)	Mycotic infection	2009
Hemporfin	Port wine stain	2010
Vincristine liposome (長春新鹼脂質體)	Tumors	2011
Lymphotoxin α -derivatives (淋巴毒素 α -衍生物)	Tumors	2012

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

In order to be in line with the production of the first batch of the two drugs in the two commercialization directions, the Group's reforms to the production sites for these two products have been completed and all preparations for commercialization have been finished, so as to cope with the GMP certification and market launch of these two products.

In respect of commercialization, the Group has the production and sales of diagnostic reagents, HLA genetic chips and Down's Syndrome antenatal screening system, in addition to dermal disease drugs and tumor treatment drugs which have been approved for production, and the Group will soon expedite to complete the conversion from purely R&D to both R&D and commercialization. The Group is in the process of establishing its marketing function and the Group will soon have complete functions through organic combination of the R&D, product manufacture and marketing functions, enabling the Company to progress to a better development stage.

In March 2007, the Company established a wholly-owned subsidiary, Taizhou Pharmaceutical (泰州藥業) in Taizhou, Jiangsu. Production lines will be constructed by stages based on the progress achieved in the development of the Company's products so that the subsidiary will gradually develop into a comprehensive production and manufacturing base integrating various production lines of the Company. Taizhou Pharmaceutical intends to purchase land in the Taizhou Medical High Technology Industrial Park for the constructing of its plant. However, given the limited land available at the Company's current location, proceeding with production at the current location will affect the development of the Company. Besides, land prices in other areas of Shanghai are extremely high and human resources cost in Shanghai is also higher than that in cities surrounding Shanghai.

The Group is currently in discussion with Nanjing Medical Company Limited (its A shares are listed on the Shanghai Stock Exchange), Taizhou Huaxin Medical Investment Co. Ltd. (泰州華信醫藥投資有限公司) and Taizhou Science Park Huayuan Investment Development Co. Ltd. (泰州科技園華源投資發展有限公司) on the possibility of injecting capital into the Company's Taizhou Pharmaceutical by them.

CORPORATE GOVERNANCE

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

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

- All members of the Audit Committee are Independent Non-executive Directors.
- Board meetings held during 2006 exceeded four times.

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

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

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors, chief executive or Supervisors or their spouse or children of age under 18 has been authorized by the Company or any subsidiary any right to purchase shares or debentures in the Company or any other body corporate, or have exercised such rights within 2006.

DIRECTORS’ AND SUPERVISORS’ INTERESTS IN CONTRACTS

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

The Group has not entered into any material contracts in which the Group’s Directors, Supervisors have direct or indirect interests during any time in 2006.

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

As at 31 December 2006, the interests (including interests in shares and / or short positions) of the Directors, Chief Executive and Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, (a) as notified to the Company and the Stock Exchange pursuant to: Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (“SFO”); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

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

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

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2006, the persons other than a director, chief executive or supervisor of the Company who have interests and / or short positions in the shares or underlying shares of the Company subject to disclosure under Divisions 2 and 3 of Part XV of the SFO are listed as follows (the interests in shares and / or short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, Chief Executive and Supervisors):

Name of substantial shareholders	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the respective class of share capital	Percentage in total share capital
Shanghai Pharmaceutical (Group) Corporation	Domestic Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	27.26%	19.66%
Shanghai Pharmaceutical Co., Ltd.	Domestic Shares	139,578,560 (L)	Beneficial Owner	Corporate	27.26%	19.66%
China General Technology (Group) Holding, Limited	Domestic Shares	130,977,816 (L)	Beneficial Owner	Corporate	25.58%	18.45%
Shanghai Zhangjiang (Group) Co. Ltd.	Domestic Shares	105,915,096 (L)	Interest of controlled corporation	Corporate	20.69%	14.92%
Shanghai Zhangjiang Hi-Tech Park Development Corp.	Domestic Shares	105,915,096 (L)	Beneficial Owner	Corporate	20.69%	14.92%
Fudan University	Domestic Shares	30,636,288 (L)	Beneficial Owner	Corporate	5.98%	4.31%
Shanghai Industrial Investment (Holdings) Co. Ltd.	H Shares	70,564,000 (L)	Interest of controlled corporation	Corporate	35.64%	9.94%
S.I. Pharmaceutical Holdings Ltd.	H Shares	65,856,000 (L)	Beneficial Owner	Corporate	33.26%	9.28%
SIIC Medical Science and Technology (Group) Limited	H Shares	4,708,000 (L)	Beneficial Owner	Corporate	2.38%	0.66%
Cheng Ken Yi	H Shares	19,796,000 (L)	Interest of controlled corporation	Individual	9.99%	2.79%
Legitimate Assets Limited	H Shares	19,796,000 (L)	Beneficial Owner	Corporate	9.99%	2.79%

COMPETING INTERESTS

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

Shanghai Pharmaceutical Co., Ltd.

Investee company	Nature of business	Shareholding interests
Shanghai Tongyong Pharmaceutical Co., Ltd. (上海通用藥業股份有限公司)	Drug manufacturing	40%
Jingbo Yatai Bio-technology Co., Ltd. (寧波亞太生物技術有限公司)	Drug manufacturing	89%
Shanghai Hefeng Pharmaceutical Co., Ltd. (上海禾豐制藥有限公司)	Drug manufacturing	50%
Shanghai Fuda Pharmaceutical Co., Ltd. (上海福達制藥有限公司)	Drug manufacturing	70%
Shanghai Huashi Pharmaceutical Co., Ltd. (上海華氏制藥有限公司)	Drug manufacturing	100%
Shanghai Huashi Pharmaceutical Hi-Tech Industrial Development Co., Ltd. (上海華氏醫藥高科技實業發展有限公司)	Drug introduction and R&D of chemical and initiative drugs	100%

China General Technology (Group) Holding, Ltd.

Investee company	Nature of business	Shareholding interests
Hainan Tongmeng Pharmaceutical Co., Ltd. (海南同盟藥業有限公司)	Drug manufacturing	49%
Hainan Sanyang Pharmaceutical Co., Ltd. (海南三洋藥業有限公司)	Drug manufacturing	80.55%

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

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

SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

Having made enquiries, all Directors, Supervisors and relevant employees have complied with the relevant requirements in 2006.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2006.

PRE-EMPTIVE RIGHTS

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

The Audit Committee reviews the accounting principles and practices adopted by the Group, as well as the listing rules and statutory compliance, and reviews issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee made discussions on the Group's audited annual results for 2006 before proposing to the Board for approval.

AUDITORS

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

By Order of the Board
Wang Hai Bo
Chairman

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

Mr. Wang Hai Bo (*Executive Director*)
Mr. Su Yong (*Executive Director*)
Mr. Zhao Da Jun (*Executive Director*)
Mr. Jiang Guo Xing (*Non-executive Director*)
Ms. Fang Jing (*Non-executive Director*)
Mr. Zhou Jie (*Non-executive Director*)
Mr. Guo Jun Yu (*Non-executive Director*)
Mr. Zhou Mai (*Non-executive Director*)
Mr. Pan Fei (*Independent Non-executive Director*)
Mr. Cheng Lin (*Independent Non-executive Director*)
Mr. Weng De Zhang (*Independent Non-executive Director*)

Shanghai, the PRC
21 March 2007

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

** For identification purpose only*