



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)

THIRD QUARTERLY RESULTS REPORT
For the three months and nine months ended 30 September, 2002

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This report, for which the directors of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. 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 Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review for the nine months ended 30 September, 2002

For the nine months ended 30 September, 2002, turnover of the Group amounted to approximately RMB15.4 million, compared to RMB21.6 million for the corresponding period in 2001. The decrease in turnover is mainly due to the decrease in technology transfer revenue recognised by RMB7.0 million as compared with the corresponding period in 2001. On 25 March, 2002, the Company signed a technology transfer agreement with Shangdong Dong-E E-Jiao Co., Ltd. for a total consideration of RMB15.0 million. The Group has recognised RMB10.0 million in the nine months ended 30 September, 2002 after completed the respective milestones as specified in the technology transfer agreement. Apart from the technology transfer, the sales of medical and diagnostic reagents increased by 17% as compared to the corresponding period in 2001 which is principally due to the enhanced marketing efforts.

The total expenses of the Group for the nine months ended 30 September, 2002 was approximately RMB19.8 million, compared with RMB17.7 million for the corresponding period in 2001. The increase was a result of more resources being devoted to research and development activities.

The Group recorded a profit before taxation of approximately RMB1.3 million for the nine months ended 30 September, 2002, compared with a profit before taxation of approximately RMB11.6 million for the corresponding period in 2001.

Financial review for the three months ended 30 September, 2002

For the three months ended 30 September, 2002, turnover of the Group amounted to approximately RMB4.1 million, compared to RMB7.5 million in last quarter and RMB18.4 million for the corresponding period in 2001. The decrease in turnover is mainly due to the decrease in technology transfer revenue recognised as compared with last quarter and the corresponding period in 2001. Apart from the technology transfer, the sales of medical and diagnostic reagents decreased by 54% and 18% as compared with last quarter and the corresponding period in 2001 respectively. The decrease in the sales of medical and diagnostic reagents is principally due to seasonal decline of certain reagents.

The total expenses of the Group for the three months ended 30 September, 2002 was approximately RMB6.0 million, compared with RMB8.0 million in last quarter and RMB9.5 million for the corresponding period in 2001. The

decrease in total expenses was a result of decrease in cost of sales and decrease in loss on available-for-sale investments respectively.

The Group recorded a profit before taxation of approximately RMB0.3 million for the three months ended 30 September, 2002, compared with a profit before taxation of approximately RMB1.5 million in last quarter and RMB13.9 million for the corresponding period in 2001.

Operation review

The H Shares of the Company have been listed on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 13 August, 2002. The funds raised through the share placing were transferred to the Company’s domestic bank account on 16 September, 2002. The Company has applied the fund since October 2002 according to the schedule as mentioned under the section of “Proceeds of the Placing” in the supplementary prospectus dated 6 August, 2002. The Company currently deposits the unused funds in banks to generate interest income.

On 17 September, 2002, a pronouncement on the Classification of the in vitro Diagnostic Reagents was issued by the State Drugs Administration (the “SDA”) of the People’s Republic of China. This pronouncement stipulates the criteria for reagents to be classified as in vitro diagnostic reagents and the standards and monitoring procedures for these reagents accordingly. Pursuant to this pronouncement, the Group’s HLA genotyping chips and the various medical diagnostic reagents produced by the Group in previous years will be governed by this pronouncement.

According to the pronouncement, sales of HLA genotyping chips is permitted only after proper production certification is obtained. This pronouncement imposes significant influence over the manufacturing, selling and licensing of the HLA genotyping chips. The Group is now assessing the implications and procedures so as to comply with this pronouncement. Notwithstanding the above, the Group is committed to obtain such certification from the SDA. In the meantime, the original plan for trial production of the chips as described in the prospectus of the Company dated 31st July 2002 and negotiations with overseas agents will be slowed down.

As certificates for the production of the rest of the medical diagnostic reagents manufactured by the Group have been obtained in previous years, this pronouncement will have minimum effects on these medical diagnostic reagents.

On 25 March, 2002, the Group signed a technology transfer agreement with an independent third party, Shandong Dong-E E-jiao Co., Ltd., to transfer recombinant tissue plasminogen activator (r-tPA) for a total consideration of RMB15.0 million. r-tPA is a drug for cure of acute heart infarction. Up to 30 September, 2002, the Company has completed most of the milestone steps for the technology transfer.

Prospect

Several projects, including recombinant human parathyroid hormone derivatives (for the treatment of osteopetrosis) and Hemporfin (a photosensitizer to be applied in the treatment of abnormal blood vessel diseases such as port wine stain, age-related muscular degeneration and corneal neovascularization) have reached final stages of research. Those projects are expected to be ready in applying to the SDA for the clinical trial by the end of 2002.

In September, 2002, the Group began to launch a new control and review policy for research and development activities conducted by various divisions of the Group. The management believes that such policy will standardise research procedures, foster creativity, improve management's control and speed up the research and development progress.

Up to 28 October, 2002, the Company has been informed that the study on the New K+ Channel inhibitor, which is developed jointly with Shanghai Institute of Materia Medica under Chinese Academy of Sciences, and the study on the new generation of lymphotoxin developed by the Company have been accredited as National Major and Special-purpose Technological Projects for the Tenth Five-year Plan granted by the Ministry of Science and Technology (the "MST"). The Company are therefore applying for non-refundable government grants of RMB3,200,000 and RMB2,000,000 respectively from the MST. If the application succeeds, these grants are estimated to be received with the next three years.

PURCHASE, SALE OR REDEMPTION OF SHARES

Apart from the placing of H Shares of the Company on the GEM of the Stock Exchange, neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed shares during the period from 13 August, 2002 (date of listing of the Company's shares on the GEM) to 30 September, 2002.

DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors, chief executive (the "Chief Executive") or supervisors (the "Supervisors") of the Company or their spouse or children under the age of 18 was granted by the Company or its subsidiary any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 30 September, 2002.

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

As at 30 September, 2002, the interests of the Directors, the Chief Executive and the Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, as required to be recorded in the register maintained by the Company under Section 29 of the SDI Ordinance were as follows:

Name of directors	Class of shares	Number of ordinary shares of RMB0.10 each		Total
		Personal interests	Corporate/ family/ other interests	
Wang Hai Bo	Domestic Shares	51,886,430	—	51,886,430
Su Yong	Domestic Shares	18,312,860	—	18,312,860
Zhao Da Jun	Domestic Shares	15,260,710	—	15,260,710
Fang Jing	Domestic Shares	5,654,600	—	5,654,600

Apart from the aforesaid, none of the Directors, the Chief Executive and the Supervisors and their respective associates had any interests in the shares or debentures of the Company and its associated corporations, if any, as recorded in the register under Section 29 of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 September, 2002, the shareholders having an interest of 10% or more in the respective class of share capital of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance are listed as follows:

Name of substantial shareholders	Class of shares	Number of shares held	Percentage in the respective class of share capital	Percentage in total issued share capital
Shanghai Pharmaceutical Co., Ltd.	Domestic Shares	139,578,560	27.26%	19.66%
China General Technology (Group) Holding, Limited	Domestic Shares	130,977,816	25.58%	18.45%
Shanghai Zhangjiang Hi-Tech Park Development Corp.	Domestic Shares	105,915,096	20.69%	14.92%
Wang Hai Bo	Domestic Shares	51,886,430	10.13%	7.31%
S.I. Pharmaceutical Holdings Ltd. (note)	H Shares	70,856,000	35.79%	9.98%

Note: Including the 5,000,000 H Shares held by SIIC Medical Science and Technology Group Limited, a subsidiary of S.I. Pharmaceutical Holdings Ltd.

Apart from the aforesaid, no other person is recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company.

DETAILS OF OPTIONS GRANTED BY THE COMPANY

On 23 June, 2002, the Company has adopted a share option scheme (the "Share Option Scheme") under which the executive directors or full-time employees of the Company or its subsidiary or any of their respective associates may be granted options to subscribe for shares of the Company subject to the terms and conditions stipulated in the Share Option Scheme.

As at the date of this report, no option has been granted or agreed to be granted to any executive directors or full-time employees of the Company or its subsidiary or any of their respective associates under the Share Option Scheme.

JOINT SPONSORS' INTERESTS

Pursuant to a sponsors agreement dated 12 August, 2002 between the Company, Guotai Junan Capital Limited ("Guotai Junan") and Barits Securities (Hong Kong) Limited ("Barits"), Guotai Junan and Barits have been appointed as the joint sponsors to the Company as required under the GEM Listing Rules at a fee from 13 August, 2002 to 31 December, 2004.

As at 30 September, 2002, two fellow subsidiaries of Guotai Junan held an aggregate of 1,306,000 H Shares of the Company. Apart from the aforesaid, Guotai Junan, Barits, their directors, employees nor any of their respective associates did not have any interest in any securities of the Company or any of its associated corporations.

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

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%
Jiangxi Nanhua Pharmaceutical Co., Ltd. (江西南華醫藥有限公司)	Drug retailing	50%
Shanghai Pharmaceutical (Sudan) Co., Ltd. (上海制藥(蘇丹)有限公司)	Drug manufacturing	55%
Shanghai Hefeng Pharmaceutical Co., Ltd. (上海禾豐制藥有限公司)	Drug manufacturing	50%
Shanghai No. 9 Pharmaceutical (上海第九制藥廠)	Drug manufacturing	100%
Shanghai Changzheng Fuming Pharmaceutical Co., Ltd. (上海長征富民藥業有限公司)	Drug manufacturing	51%
Shanghai Changzheng Jinshan Pharmaceutical Co., Ltd. (上海長征富民金山制藥有限公司)	Drug manufacturing	65%
Shanghai Fuda Pharmaceutical Co., Ltd. (上海福達制藥業有限公司)	Drug manufacturing	70%
Anhui Huashi Pharmaceutical Co., Ltd. (安徽華氏醫藥有限公司)	Drug manufacturing	67%
Shanghai Huashi Pharmaceutical Co., Ltd. (Note 1) (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

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. (Note 2) (海南三洋藥業有限公司)	Drug manufacturing	65%
China Pharmaceutical Health Accessories Import and Export Corporation (中國醫藥保健品進出口總公司)	Drug trading	100%
Yunnan Tongyong Shanmei Pharmaceutical Co., Ltd. (雲南通用善美制藥有限公司)	Drug manufacturing	51%

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%
Shanghai National Bio-pharmaceutical Base Pharmaceutical Selling Co., Ltd. (上海國家生物醫藥基地醫藥銷售有限公司)	Sales of drugs	75%
Shanghai Zhangjiang Desano Science and Technology Co., Ltd. (上海張江迪賽諾科技產業有限公司)	Manufacturing and sales of intermediate products of drugs	51%

Notes:

1. Yu Qing Hua, a non-executive Director and director of Shanghai Pharmaceutical, was nominated and appointed by Shanghai Pharmaceutical as the chairman of the board of Shanghai Huashi Pharmaceutical Co., Ltd..
2. Zhang Li Qiang, a non-executive Director and a deputy general manager of China General Industry Company, was nominated and appointed by China General to be the chairman of the board of Hainan Sanyang Pharmaceutical Co., Ltd..
3. Fang Jing, a non-executive Director, was nominated and appointed by Shanghai Zhangjiang Hi-Tech Park Development Corp. as the director of the board of Shanghai National Bio-pharmaceutical Base Pharmaceutical Selling Co., Ltd..
4. Save for notes (1), (2) and (3) above, the above Initial Management Shareholders have no board representation in the investee companies listed above.

AUDIT COMMITTEE

The Company has established an audit committee on 30 January, 2002 with written terms of reference based on the guidelines recommended by the Hong Kong Society of Accountants. The audit committee comprises two independent non-executive directors of the Company, namely Feng Zheng Quan, who is the Chairman of such committee, and Pei Gang.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the third quarterly report for the three months and nine months ended 30 September, 2002 with the directors.

CONSOLIDATED RESULTS

	Note	Unaudited Three months ended 30 September, 2002		Unaudited Nine months ended 30 September, 2002	
		RMB'000	RMB'000	RMB'000	RMB'000
Revenues					
Turnover		4,133	18,379	15,423	21,606
Other revenues		55	12	200	39
Total revenues		4,188	18,391	15,623	21,645
Costs and expenses					
Cost of sales		(1,799)	(1,404)	(7,570)	(3,753)
Research and development		(2,367)	(3,350)	(7,159)	(6,172)
Distribution costs		(332)	(320)	(1,211)	(909)
Administrative expenses		(1,423)	(1,333)	(3,846)	(3,752)
Other operating expenses		(51)	(3,128)	(56)	(3,131)
Total expenses		(5,972)	(9,535)	(19,842)	(17,717)
Other income		2,044	4,997	5,547	7,634
Profit before taxation		260	13,853	1,328	11,562
Taxation	2	(68)	(2,084)	(252)	(1,746)
Profit after taxation		192	11,769	1,076	9,816
Minority interests		152	7	350	41
Profit attributable to shareholders		344	11,776	1,426	9,857
Earnings per share (RMB)	3	0.0005	0.0222	0.0025	0.0186

NOTES:

1. Accounting policies and basis of preparation

The principal accounting policies used in the preparation of the unaudited consolidated results are consistent with those used in the preparation of the Company's financial information included in the accountants' report as set out in the prospectus issued on 31 July, 2002 in connection with the placing of shares of the Company on the GEM of the Stock Exchange. The unaudited consolidated results are prepared in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board. They have been prepared under the historical cost convention except that, the available-for-sale investments are adjusted to fair value.

The unaudited results have been prepared on a consolidated basis which include the financial statements of the Company and its subsidiary. A subsidiary is an entity in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2. Taxation

	Unaudited Three months ended 30 September, 2002		Unaudited Nine months ended 30 September, 2002	
	RMB'000	RMB'000	RMB'000	RMB'000
Current tax	(8)	(1,343)	(31)	(2,317)
Deferred tax (charge)/credit	(60)	(741)	(221)	571
	<u>(68)</u>	<u>(2,084)</u>	<u>(252)</u>	<u>(1,746)</u>

The Company is subject to the Income Tax of the PRC and the normal income tax rate applicable is 33%. As the Company is recognised as a New and High Technology Enterprise, it is entitled to a reduced Income Tax rate of 15%. Accordingly, tax provision is made at 15% of the taxable income of the Company.

The subsidiary is subject to the Income Tax Law of the PRC and the income tax rate applicable is 33%. No provision for income tax has been made for the subsidiary for the three months and nine months ended 30 September, 2002 respectively and the corresponding periods as it has no taxable income during those periods.

3. Earnings per share

The calculation of the basic earnings per share for the three months and nine months ended 30 September, 2002 were based on the unaudited profit attributable to shareholders of approximately RMB344,000 and RMB1,426,000 (2001: RMB11,776,000 and RMB9,857,000) and the weighted average of 625,869,565 shares and 562,307,692 shares (2001: 530,000,000 shares and 530,000,000 shares) in issue during the three months and nine months ended 30 September, 2002 as if the subdivision of the Company's shares, being 53,000,000 ordinary shares with a par value of Rmb1.00 each subdivided into 530,000,000 ordinary shares with a par value of RMB0.10 each on 20 January, 2002, had taken place at the beginning of the respective periods.

Diluted earnings per share has not been calculated for the three months and nine months ended 30 September, 2002 respectively and the corresponding periods as there were no dilutive potential ordinary shares during those periods.

4. Dividend

The directors do not recommend the payment of an interim dividend for the three months and nine months ended 30 September, 2002 (2001: Nil).

At the Annual General Meeting held on 23 June, 2002, it was resolved to distribute a dividend in respect of the year ended 31 December, 2001 of RMB0.15 per share, for shares held as at 31 December, 2001, amounting to RMB7,950,000. Such dividend was paid on 29 September, 2002.

5. Shareholders' fund

	Unaudited					
	Share capital <i>RMB'000</i>	Capital accumulation reserve <i>RMB'000</i>	Statutory common reserve fund <i>RMB'000</i>	Statutory common welfare fund <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January, 2001	53,000	5	531	531	1,138	55,205
Profit for the period	—	—	—	—	9,857	9,857
Balance at 30 September, 2001	<u>53,000</u>	<u>5</u>	<u>531</u>	<u>531</u>	<u>10,995</u>	<u>65,062</u>
Balance at 1 January, 2002	53,000	5	1,675	1,103	11,248	67,031
Dividend relating to 2001 (note 4)	—	—	—	—	(7,950)	(7,950)
Issue of shares	18,000	115,009	—	—	—	133,009
Profit for the period	—	—	—	—	1,426	1,426
Balance at 30 September, 2002	<u>71,000</u>	<u>115,014</u>	<u>1,675</u>	<u>1,103</u>	<u>4,724</u>	<u>193,516</u>

By Order of the Board
Wang Hai Bao
Chairman

Hong Kong, 1 November, 2002