



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

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

**(STOCK CODE: 8231)**

**INTERIM RESULTS REPORT**

**For the six months ended 30 June 2004**

\* *For identification purpose only*

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

The board of Directors are pleased to present the unaudited interim results of Shanghai Fudan-Zhangjing Bio-Pharmaceutical Co., Ltd. (the "Company") together with its subsidiaries (collectively the "Group") for the six months ended 30 June 2004.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial review for the six months ended 30 June 2004**

For the six months ended 30 June 2004, the Group realized a turnover of approximately RMB6,915,000, the relative figure for the corresponding period in 2003 being RMB4,978,000.

Of the total turnover of the Group for the first half year of 2004, RMB2,700,000 (or 39% of total turnover) came from the income of technology transfer, and the rest of approximately RMB4,215,000 (or 61% of total turnover) was derived from the sale of diagnostic products and the provision of relevant auxiliary services. In contrast, the entire turnover for the same period last year was derived from the sale of diagnostic reagent.

As compared with the same period in 2003, the Group's total turnover for the first half of 2004 increased by 39%. This is mainly because that the Group has undertaken the handovers for several technology transfers, and has therefore obtained and recognized part of the income during the period under review. In March 2004, the Group signed an agreement to transfer the overseas copyright of one of its technologies to a Taiwanese pharmaceutical company for a consideration of RMB7,500,000. In addition, the Group is also entitled to get the commission on sales of the product. As stipulated by both parties in the agreement, the Group has successfully completed the first stage of the project, and has accordingly acquired an income of RMB500,000.

Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. ("Morgan-Tan"), a subsidiary of the Group, signed an agreement with a pharmaceutical company in Shan Dong Province, to transfer a technology named Mycophenolate Mofetil (徽酚酸酯) for a consideration of RMB5,000,000. Since Morgan-Tan has successfully completed tasks of some stages as stipulated in the contract, it received the income of RMB2,000,000. In addition, Shanghai Ba Dian Medicine Co., Ltd. ("Ba Dian") another subsidiary of the Group, also signed a technology development contract with a Singaporean pharmaceutical company for technology and service provision on two medical projects of that company for a total consideration of RMB4,500,000. The Group also received an income of RMB200,000 for the work completed for the first stage.

The sales of diagnostic products dropped by 15% in comparison with the same period in 2003. This is mainly because that the Group has transformed its sales and marketing strategies, from pure pursuing short-term sales revenues towards emphasizing on the selection of better credit-rating customers, as well as exploiting new market development space for the Group's new products.

The total expenses of the Group for the six months ended 30 June 2004 were approximately RMB18,762,000, compared with RMB15,031,000 for the corresponding period in 2003. The rise was mainly attributed to the allocation of more resources to research and development activities.

The Group recorded a loss attributable to shareholders of approximately RMB8,139,000 for the six months ended 30 June 2004, whereas the loss attributable to shareholders for the same period last year was RMB6,831,000.

## **BUSINESS REVIEW**

### **Research and development**

The Group has always devoted to the application of research and development as the basis for its long-term development. Since the beginning of this year, various research and development works of the Group have been proceeding smoothly. With respect to genetic engineering drugs, the Group has been insisting on the strategy of integrating the research of innovative drugs with the construction of technological platform, and has obtained a breakthrough thereupon. The Group performed structural analogous calculations on the interactions of protein molecules through the use of computers (Insight II software), and arrived at a breakthrough in obtaining a set of lymphotoxin derivatives which selectively combine with its p55 receptor or p75 receptor through the interaction of molecules at the high throughput screening platform with the biological assessment system. Currently, the Company is applying for the invention patent on physical substance on the research results.

At the same time, on the basis of first generation lymphotoxin (currently the phase I clinical trial and human body pharmacokinetic testing of which having been successfully completed), a new type of lymphotoxin with broader anti-tumour spectrum and more specific effect has been obtained. In addition, significant progress has also been made on the construction of animal cell high expression technological platform, which is currently a technology bottleneck limiting the development of the bio-pharmaceutical industry in the PRC. The expression level of recombinant human soluble TNFR75 fusion protein by using CHO (Chinese Hamster Ovary cells) expression, has met the requirements for large scale commercial production. Currently, pre-clinical studies of the drug and genetic engineering drugs such as rhPTH, rhIL-1Ra have been completed, and applications for clinical trials have been submitted to the State Food and Drugs Administration (“SFDA”).

With respect to R&D on photodynamic drugs, apart from the completion of supplementary applications for clinical trials on hempofofin, the world’s first drug for treatment of port wine stain, and 5-氨基酮戊酸鹽 (ALA), a drug for the treatment of acute condyloma, the Group also completed preliminary work for the pre-clinical pharmacology and toxicology researches on deuteroporphyrin derivative (多替泊芬). R&D on new proprietary indication for the patent treatment of muscular degeneration (眼底黃斑治療) was commenced at the same time, and new proprietary apparatus has also been specially developed for this purpose.

With respect to the research of medical diagnosis products, apart from the Down’s Syndrome antenatal screening system (“Down’s Syndrome”) which has obtained approval for production from the SFDA, the Human Leukocyte Antigen (HLA) genotyping chip was also well recognized on an evaluation meeting comprising domestic professional authorities in July this year. The Group will further develop new diagnostic products based on new technology platforms, so as to fulfill the tremendous demands for the continuous development of the clinical medical science in the PRC.

The Group has also made significant progress with respect to the R&D on other drugs and Drug Dispense System (DDS). Supplementary application materials for plant extracted drugs ( $\alpha$ -1, 4 glucosidase inhibitor) were filed. By utilizing GPCR (G蛋白偶聯受體) as a new drug screening system, Ba Dian has screened out a compound which inhibits HIV Virus, and has passed the initial assessment of in vitro pharmacological testing. The compound is now being applied for the invention patent on physical substance, and is being conducted further research. At the same time, the joint development of liposome drug dispense system aiming at antibiotics and anti-tumor drugs between the Group and a U.S. academy is also proceeding smoothly. It is expected that approval for production in the PRC will be obtained within two years.

## Commercialization

Commercialization is the strategic goal of long-term development of the Group. Apart from continuously promoting the existing diagnostic products in order to further expand the market share, the Group will gradually commercialize drugs currently under R&D, and will stride into the international market from the PRC market. It is expected that commercialization will bring substantial revenue to the Group.

Pursuant to the standardization requirements of the SFDA relating to in vitro diagnostic reagents, the Group is currently re-registering its biochemical diagnostic products as medical devices. Currently, the Group has completed the applications for the first batch of 13 products. It is anticipated that the registration for all the products (about 40) will be completed within the year.

Upon receiving the Drug Registration Certificate (Drug Registration No. S20040017) from SFDA for Down's Syndrome in March 2004, the Group has successfully obtained the GMP certification in July this year. Therefore, the Down's Syndrome medicine can be formally launched to the market from July on. The project was the first product approved by SFDA for production and sales since the commencement of the "Birth defects interference engineering (出生缺陷幹預工程)". On the basis of hazard index computing software which is based on substantial amount of clinical data sampled from Chinese population, plus the tremendous market of 20 million newly born babies in the PRC, the product is expected to become one of the Group's important profit sources in the future. The master dealer agreement which the Group entered into with Jiangsu Xiansheng Pharmaceutical Company Limited (江蘇先聲藥業有限公司) began performing its first year sales tasks. The directors are confident that following the formal launch and promotion of the product, the Group's commercialization will step into a new era.

## **Technological transfer**

In 2003, no income was recorded for technological transfer. In contrast, the Group has a number of technological transfer projects under progress within the period under review. Pursuant to a contract entered into by the Group with a Taiwan pharmaceutical company, the Group transferred the overseas copyright of a technological product to that company for a total consideration of RMB7,500,000, and is entitled to withdraw commissions from the sales of such technological product. Morgan-Tan, a subsidiary of the Group, entered into an agreement with a pharmaceutical company in Shandong for the transfer of technology in Mycophenolate Mofetil (霉酚酸酯) to that company for a consideration of RMB5,000,000. Ba Dian, another subsidiary of the Group, entered into a technological development agreement with a pharmaceutical company in Singapore for the technological development and technical services with respect to its two medical projects for a consideration of RMB4,500,000. Results on the transfer of these projects were achieved by stages. The Group received certain portion of income from technological transfer as a result thereof.

## **Patents**

The Group always places great importance on the legal protection of its proprietary technologies and patent technologies particularly its self-developed innovative drugs and the R&D results. During the period under review, the Group has obtained 4 patents, and is applying for 2 new patents.

## **Prospects**

During the first half of 2004, the Group's operating method has been evolving from R&D to commercialization, with a historical transformation being made. The Directors expected that the gradual realization of the commercialization of patent drugs and special drugs can bring substantial income to the Group. Current R&D breakthrough of the Group will provide it opportunities to become an international pharmaceutical enterprise, and bring satisfactory returns to the shareholders.

## Comparison of Business Objectives with Actual Business Progress

The Group's various R&D have been progressing smoothly. Among these, the recombinant human lymphotoxin- $\alpha$  derivatives (rhLT) for the treatment of lung cancer, hempofofin, a photodynamic therapy drug, have obtained results by stages during the period under review, and will soon enter into another stage of R&D. Some other projects which have not been disclosed in the prospectus, such as photodynamic therapy drug 5-氨基酮戊酸鹽, recombinant human interleukin-1 receptor antagonist (重組人白細胞介素1受體拮抗劑), have made early breakthrough progress due to adjustments of the Group's long-term strategic development plans. There are also some projects, the development progress of which have been delayed due to the adjustment of the R&D focus and changes to the clinical application program of the SFDA. The following are comparison of the actual progress with the original plan of the projects:

<b>Project name and description</b>	<b>Anticipated progress of R&amp;D as at 30 June 2004 set out in the prospectus</b>	<b>Actual progress as at 30 June 2004</b>
Recombinant human lymphotoxin- $\alpha$ derivatives (rhLT) for the treatment of lung cancer	Completed stage III clinical trial, and obtained New Drug Certificate	Completed stage I clinical trial
Recombinant human parathyroid hormone derivatives (rhPTH) for the treatment of osteoporosis	Completed stage II clinical trial	Application for clinical trial has been filed with SFDA
Construction of GMP factory	Completed construction of the factory, and has purchased some production and quality control facilities for approximately RMB23,700,000	The GMP factory and facilities for the production of Down's syndrome antenatal screening system have been completed, and have obtained GMP certification from the SFDA



Project name and description	Anticipated progress of R&D as at 30 June 2004 set out in the prospectus	Actual progress as at 30 June 2004
		In addition, the Group has entered into a compensation contract with respect to the land use right on the requisition of approximately 15 hectare land for the commercialization of future projects
Hemporfin, a photodynamic therapy drug	Completed stage II clinical trial	Application for clinical trial has been filed with the SFDA
Deuteroporphyrin, a photodynamic drug (多替泊芬)	Conduct stage II clinical trial	The Company has completed pre-clinical studies, and will file an application for clinical trial with the SFDA before the year end
Human leukocyte antigen (HLA) genotyping chips	Commercialization	Has been implemented
Lymphotoxin mutants	—	Fulfilled
New type of erythropoietin	—	Research suspended due to other considerations of the Company. The project was replaced by the Recombinant human interleukin-1 receptor antagonist (rhIL-1Ra) project

<b>Project name and description</b>	<b>Anticipated progress of R&amp;D as at 30 June 2004 set out in the prospectus</b>	<b>Actual progress as at 30 June 2004</b>
$\alpha$ -1, 4 glucosidase inhibitor	—	Fulfilled ahead of schedule
Others	Completed theoretical application of compound Chinese medicines for the treatment of fibrosis hepatitis (肝纖維化)	Research direction of the Chinese medicine has been replaced by research on liposome
Recombinant human interleukin-1 receptor antagonist (rhIL-1Ra)	Nil	Application for clinical trial has been filed with the SFDA
Recombinant human soluble TNFR75 fusion protein (Etanercept) for the treatment of arthritis	Nil	Application for clinical trial has been filed with the SFDA
5-氨基酮戊酸鹽(ALA), a new photodynamic therapy drug	Nil	Application for clinical trial has been filed with the SFDA

## **DIVIDEND**

After due consideration of the future working capital and development needs of the Group, the Directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2004.

## **SIGNIFICANT INVESTMENTS**

As at 30 June 2004, the Group did not have any significant investment.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

The Group did not have any material acquisitions or disposals of subsidiaries and associated companies during the period ended 30 June 2004.

## **CONTINGENT LIABILITIES**

As at 30 June 2004 and 31 December 2003, the Directors were not aware of any material contingent liabilities.

## **CHARGE ON ASSETS**

As at 30 June 2004, the Group did not have any charge on its assets.

## **BANKING FACILITIES**

As at 30 June 2004, the Group has no banking facilities.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

The Group entered into a contract for land resumption on 25 February 2004 for purchasing the land use right of a 15-hectare land at a site next to the Company. New factory building(s), with total capital investment of which not yet determined, will be built to meet the demand for future development.

Save as the above, there are no future plans for material investments or capital assets.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group generally financed its operations and investing activities with internally generated financial resources, proceeds from the placing of shares in August 2002 by the Company and loans and research grants from municipal government authorities. As at 30 June 2004, the Group had outstanding loans from municipal government authorities of RMB1,650,000 which are unsecured and interest free.

As at 30 June 2004, the Group had a net cash and cash equivalent position of approximately RMB36,611,000. Following the listing of the Company's shares on the GEM of the Stock Exchange on 13 August, 2002, the liquidity position of the Group has been strengthened with the proceeds from the placing of shares, which amounted to approximately HK\$125,386,000 after deducting all relevant expenses. The Group intends to apply these proceeds in the manner as disclosed in the Supplementary Prospectus of the Company dated 6 August, 2002.

The Group's gearing ratio at 30 June 2004 was 0.06 (31 December, 2003: 0.08) which is calculated based on the Group's total liabilities of RMB9,259,000 (31 December, 2003: RMB14,521,000) and shareholders' funds of RMB166,411,000 (31 December, 2003: RMB174,550,000).

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

## **FOREIGN EXCHANGE EXPOSURE**

The Group operates mainly on the domestic market. Cash proceeds from the placing of H shares in August 2002 were in HK dollars and part of the cash has not been converted to RMB. The official exchange rate for HK dollar and RMB has generally been stable, however, the results of operations and the financial position of the Group may be affected by the changes in the exchange rates.

On the other hand, the conversion of RMB dominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

## **EMPLOYEES**

As at 30 June 2004, the Group had a total of 127 employees, comparing with 124 employees as at 31 December 2003. Staff costs including directors' remuneration for the six months ended 30 June, 2004 and 2003 were RMB4,784,000 and RMB5,070,000, respectively. The Group's employment and remuneration policies remain unchanged with those described in the Prospectus of the Company. Salaries and benefits of employees of the Group are kept at a competitive level and employees are rewarded on a performance related basis with general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory compulsory welfare plans, is also provided to employees.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Apart from the placing of H Shares of the Company on the GEM, 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 June 2004.

## **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 subsidiaries any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 30 June 2004.

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

As at 30 June 2004, the interests (including interests in shares and/or short positions) 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, (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 30 June 2004, 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 which are required to disclose under Divisions 2 and 3 of Part XV of the SFO are listed as follows (the interests in shares and short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, the Chief Executive and the 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%

## **DETAILS OF OPTIONS GRANTED BY THE COMPANY**

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

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

## **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 June 2004, one fellow subsidiary of Guotai Junan held 1,324,000 H Shares of the Company. Apart from the aforesaid, Guotai Junan, Barits, their directors, employees or 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 Co., Ltd.*

<b>Investee company</b>	<b>Nature of business</b>	<b>Shareholding interests</b>
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	51%
Shanghai Pharmaceutical (Sudan) Co., Ltd. (上海製藥(蘇丹)有限公司)	Drug manufacturing	55%
Shanghai Hefeng Pharmaceutical Co., Ltd. (上海禾豐製藥有限公司)	Drug manufacturing	50%
Shanghai No. 9 Pharmaceutical (上海第九製藥廠)	Drug manufacturing	100%
Shanghai Changzheng Jinshan Pharmaceutical Co., Ltd. (上海長征富民金山製藥有限公司)	Drug manufacturing	65%
Shanghai Fuda Pharmaceutical Co., Ltd. (上海福達製藥業有限公司)	Drug manufacturing	70%
Anhui Huashi Pharmaceutical Co., Ltd. (安徽華氏醫藥有限公司)	Drug manufacturing	67%



<b>Investee company</b>	<b>Nature of business</b>	<b>Shareholding interests</b>
Shanghai Huashi Pharmaceutical Co., Ltd. (Note 1) (上海華氏製藥有限公司)	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%
Shanghai Jiufu Pharmaceutical Co., Ltd. (上海九福藥業有限公司)	Drug manufacturing	50%
Maanshan City Huashi Pharmaceutical Co., Ltd. (馬鞍山市華氏醫藥有限公司)	Drug trading	50%
Anhui Province Huajinshi Wuhu Pharmaceutical Co., Ltd. (安徽省華金氏蕪湖有限公司)	Drug trading	80%
<i>China General Technology (Group) Holding, Ltd.</i>		
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	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 Pharmecautical Co., Ltd. (雲南通用善美製藥有限公司)	Drug manufacturing	51%

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

<b>Investee company</b>	<b>Nature of business</b>	<b>Shareholding interests</b>
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. (Note 2) (上海國家生物醫藥基地醫藥銷售有限公司)	Sales of drugs	75%

*Notes:*

1. Yu Qing Hua, a non-executive Director and director of Shanghai Pharmaceutical Co., Ltd., was nominated and appointed by Shanghai Pharmaceutical Co., Ltd. as the chairman of the board of Shanghai Huashi Pharmaceutical Co., Ltd.
2. 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.

## **BOARD PRACTICES AND PROCEDURES**

During the six months ended 30 June 2004, the Company has been complying with Rules 5.34 to 5.45 of the GEM Listing Rules relating to the board practices and procedures.

## **SECURITIES TRANSACTIONS BY DIRECTORS**

During the six months ended 30 June 2004, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings stipulated in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the Directors of the Company have been complying with the required standard of dealings and the code of conduct for directors' securities transactions during the six months ended 30 June 2004.

## **AUDIT COMMITTEE**

The audit committee comprises three independent non-executive Directors of the Company, namely Mr. Pan Fei, who is the chairman, Mr. Weng Dezhang and Mr. Cheng Lin.

The Audit Committee, together with the management team of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the Directors, including a review of the interim report for the six months ended 30 June 2004.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Unaudited three months ended		Unaudited six months ended	
		30 June		30 June	
		2004	2003	2004	2003
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Revenues</b>					
Turnover	3	<b>3,954</b>	3,626	<b>6,915</b>	4,978
Other revenue		<b>312</b>	746	<b>550</b>	1,456
<b>Total revenues</b>		<b>4,266</b>	4,372	<b>7,465</b>	6,434
<b>Costs and expenses</b>					
Cost of sales		<b>(2,874)</b>	(3,117)	<b>(4,946)</b>	(4,098)
Research and development costs		<b>(3,709)</b>	(3,751)	<b>(7,745)</b>	(5,246)
Distribution costs		<b>(547)</b>	(586)	<b>(1,056)</b>	(1,063)
Administrative expenses		<b>(2,346)</b>	(2,758)	<b>(4,564)</b>	(4,545)
Other operating expenses		<b>(299)</b>	(45)	<b>(451)</b>	(79)
<b>Total costs and expenses</b>		<b>(9,775)</b>	(10,257)	<b>(18,762)</b>	(15,031)
Other income		<b>1,156</b>	479	<b>2,682</b>	1,621
<b>Operating loss</b>	4	<b>(4,353)</b>	(5,406)	<b>(8,615)</b>	(6,976)
Share of results of associate before taxation	5	<b>(487)</b>	—	<b>(1,082)</b>	(232)
<b>Loss before taxation</b>		<b>(4,840)</b>	(5,406)	<b>(9,697)</b>	(7,208)
Taxation		<b>630</b>	146	<b>1,098</b>	72
<b>Loss after taxation</b>		<b>(4,210)</b>	(5,260)	<b>(8,599)</b>	(7,136)
Minority interests		<b>170</b>	235	<b>460</b>	305
<b>Loss attributable to shareholders</b>		<b>(4,040)</b>	(5,025)	<b>(8,139)</b>	(6,831)
<b>Loss per share (RMB)</b>	7	<b>(0.0057)</b>	(0.0071)	<b>(0.0115)</b>	(0.0096)

## CONSOLIDATED BALANCE SHEETS

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2004</b>	2003
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Non-current assets</b>			
Leasehold land payments	8	<b>9,123</b>	5,127
Fixed assets	8	<b>42,617</b>	43,693
Technical know-how	8	<b>7,377</b>	8,385
Deferred development costs	8	<b>16,935</b>	16,615
Investment in an associate		<b>3,681</b>	3,419
Available-for-sale investments		<b>4,325</b>	3,227
		<hr/> <b>84,058</b>	<hr/> 80,466
<b>Current assets</b>			
Inventories		<b>1,990</b>	2,602
Trade receivables	9	<b>3,444</b>	2,701
Other receivables, deposits and prepayments		<b>1,840</b>	843
Amounts due from related companies		<b>1,000</b>	1,000
Amount due from a shareholder		<b>250</b>	250
Amount due from an associate		<b>150</b>	1,350
Available-for-sale investments		<b>2,335</b>	3,504
Held-to-maturity investments		<b>—</b>	6,003
Deposits in other financial institutions		<b>10,289</b>	2,945
Cash and bank balances		<b>75,814</b>	93,368
		<hr/> <b>97,112</b>	<hr/> 114,566

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2004</b>	2003
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Current liabilities</b>			
Trade payables	10	<b>2,030</b>	1,556
Other payables and accruals		<b>1,640</b>	5,242
Deferred revenue		<b>2,939</b>	5,073
Loans from municipal government authorities	11	<b>1,650</b>	1,650
Amount due to a shareholder		<b>1,000</b>	1,000
		<hr/> <b>9,259</b>	<hr/> 14,521
<b>Net current assets</b>		<hr/> <b>87,853</b>	<hr/> 100,045
<b>Total assets less current liabilities</b>		<hr/> <b>171,911</b>	<hr/> 180,511
<b>Minority interests</b>		<hr/> <b>5,500</b>	<hr/> 5,961
<b>Net assets</b>		<hr/> <b>166,411</b>	<hr/> 174,550
<b>Financed by</b>			
Share capital		<b>71,000</b>	71,000
Reserves		<b>95,411</b>	103,550
<b>Shareholders' funds</b>		<hr/> <b>166,411</b>	<hr/> 174,550

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June 2004 <i>RMB'000</i>	Unaudited Six months ended 30 June 2003 <i>RMB'000</i>
Net cash used in operation activities	(11,802)	(7,655)
Net cash used in investing activities	(17,260)	(20,142)
Decrease in cash and cash equivalents	<u>(29,062)</u>	<u>(27,797)</u>
<b>Movement in cash and cash equivalents (Note)</b>		
At the beginning of the period	65,673	53,551
Decrease	(29,062)	(27,797)
At the end of the period	<u>36,611</u>	<u>25,754</u>
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash and bank balances	26,322	23,467
Deposits in other financial institutions	10,289	2,287
	<u>36,611</u>	<u>25,754</u>

*Note:* Cash and cash equivalents do not include term deposits in bank with maturities over three months. As at 30 June 2004, the Group had a term deposit balance of RMB49,492,000 in bank with maturities over three months.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					Total RMB'000
	Share capital RMB'000	Capital accumulation reserve RMB'000	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Retained earnings/ (Accumulated loss) RMB'000	
Balance at 1 January 2003	71,000	115,014	1,709	1,120	4,054	192,897
Loss for the period	—	—	—	—	(6,831)	(6,831)
Balance at 30 June 2003	<u>71,000</u>	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(2,777)</u>	<u>186,066</u>
Balance at 1 January 2004	71,000	115,014	1,709	1,120	(14,293)	174,550
Loss for the period	—	—	—	—	(8,139)	(8,139)
Balance at 30 June 2004	<u>71,000</u>	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(22,432)</u>	<u>166,411</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Background

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the “Company”) was established in the People’s Republic of China (“PRC”) on 11 November 1996 as a limited liability company with an initial registered capital of RMB5,295,000.

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

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

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

On 13 August 2002, the Company commenced the trading of the newly issued 198,000,000 ordinary shares (“H shares”) of RMB0.10 each 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 this report, 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 Company and its subsidiaries (the “Group”) are principally engaged in research, development and selling of self-developed bio-pharmaceutical know-how, carrying out contracted research for customers, manufacturing and selling of diagnostic reagent and the provision of related ancillary services in the PRC.

### 2. Accounting policies and basis of preparation

The principle accounting policies adopted by the Group in arriving at the financial information described in the unaudited condensed interim accounts are set out below:

- (a) The accounts have been prepared in accordance with International Accounting Standards and Interpretations Committee (collectively as “IAS”). They have been prepared under the historical cost convention except that the available-for-sale investments are shown at fair value.
- (b) The accounts have been prepared in accordance with IAS 34 “Interim Financial Reporting” and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

- (c) The accounting policies and basis of preparation used in the preparation of the accounts are consistent with those used in the preparation of the Company's financial information included in the accountants' report set out in the Prospectus.
- (d) The accounts have been prepared on a consolidated basis which include the financial statements of the Company and its subsidiaries. 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 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.

### 3. Turnover and segmental information

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

	Unaudited three months ended 30 June 2004			Unaudited three months ended 30 June 2003		
	Research and development activities RMB'000	Sales of diagnostic products and the provision of related ancillary services RMB'000	Total RMB'000	Research and development activities RMB'000	Sales of diagnostic products and the provision of related ancillary services RMB'000	Total RMB'000
Turnover	<u>2,500</u>	<u>1,454</u>	<u>3,954</u>	<u>—</u>	<u>3,626</u>	<u>3,626</u>
Segment profit/(loss)	(2,050)	44	(2,006)	(3,309)	57	(3,252)
Unallocated income			298			605
Unallocated loss			(3,132)			(2,759)
Loss before taxation			(4,840)			(5,406)
Taxation credit			630			146
Loss after taxation			(4,210)			(5,260)
Minority interests			170			235
Loss attributable to shareholders			<u>(4,040)</u>			<u>(5,025)</u>

	Unaudited six months ended 30 June 2004			Unaudited six months ended 30 June 2003		
	Research and development activities RMB'000	Sales of diagnostic products and the provision of related ancillary services RMB'000	Total RMB'000	Research and development activities RMB'000	Sales of diagnostic products and the provision of related ancillary services RMB'000	Total RMB'000
Turnover	<u>2,700</u>	<u>4,215</u>	<u>6,915</u>	—	<u>4,978</u>	<u>4,978</u>
Segment (loss)/profit	(4,829)	251	(4,578)	(4,097)	130	(3,967)
Unallocated income			978			1,385
Unallocated loss			(6,097)			(4,626)
Loss before taxation			(9,697)			(7,208)
Taxation credit			1,098			72
Loss after taxation			(8,599)			(7,136)
Minority interests			460			305
Loss attributable to shareholders			<u>(8,139)</u>			<u>(6,831)</u>

*Note:* There are no sales or other transactions between the business segments. Unallocated income and unallocated costs mainly represented other income received and general and administrative expenses incurred by the Group during the Relevant Periods that are not directly attributable to the principal activities.

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

#### 4. Loss before taxation

Loss before taxation is arrived at after (crediting)/charging the following items:

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Amortisation of government grants and other non-refundable grants	(1,052)	(680)	(2,254)	(1,460)
Amortisation of leasehold land payments	27	27	54	54
Amortisation of deferred development costs	282	139	421	278
Amortisation of technical know-how	633	313	1,266	508
Depreciation of fixed assets	894	834	1,914	1,565
Less: amount capitalized in deferred development costs	(66)	(183)	(66)	(559)
	828	651	1,848	1,006
Research and development expenditure (note)	3,709	3,751	7,745	5,246
Staff costs (note)				
Housing subsidy	319	328	624	642
Retirement benefit costs	197	200	375	368
Social security costs	122	130	232	287
Wages and salaries	1,854	1,541	3,553	3,773
	2,492	2,199	4,784	5,070
Unrealised loss/(profit) on available-for-sale investments	184	(99)	163	(267)
Realised (profit)/loss on available-for-sale investments	(15)	124	(283)	203
Provision for/(reversal of provision for) bad debts	—	53	—	(5)

Note: Research and development expenditure mainly represents the salary costs of technical staff involved and the consumables used in the research and development activities which do not satisfy the criteria for capitalisation as an asset. The salary costs of technical staff are also included in the staff costs.

## 5. Taxation credit

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax credit	<u>630</u>	<u>146</u>	<u>1,098</u>	<u>72</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, the Company is subject to Income Tax at a rate of 15%.

The subsidiaries are subject to the Income Tax Law of PRC and the income tax rate applicable is 33%. No provision for income tax has been made for the subsidiaries for the three months and six months ended 30 June 2004 respectively and the corresponding periods, as it has no taxable income during those periods.

## 6. Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

## 7. Loss per share

The calculation of the loss per share for the three months ended 30 June 2004 and 30 June 2003 were based on the unaudited loss of approximately RMB4,040,000 (three months ended 30 June 2003: loss attributable to shareholders of approximately RMB5,025,000) and total shares in issue of 710,000,000 shares (three months ended 30 June 2003: 710,000,000 shares) during the three months ended 30 June 2004.

The calculation of the loss per share for the six months ended 30 June 2004 and 30 June 2003 were based on the unaudited loss of approximately RMB8,139,000 (six months ended 30 June 2003: loss attributable to shareholders of approximately RMB6,831,000) and total shares in issue of 710,000,000 shares (six months ended 30 June 2003: 710,000,000 shares) during the six months ended 30 June 2004.

Diluted loss per share have not been calculated for the three months and six months ended 30 June 2004 respectively and the corresponding periods as there were no dilutive potential ordinary shares during those periods.

## 8. Capital expenditure

	Leasehold land payments <i>RMB'000</i>	Unaudited		Deferred development costs <i>RMB'000</i>
		Fixed assets <i>RMB'000</i>	Technical Know-how <i>RMB'000</i>	
<b>Cost</b>				
At 1 January 2004	5,289	51,227	11,349	19,117
Additions	4,050	846	258	741
Disposals	—	(29)	—	—
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 30 June 2004	<u>9,339</u>	<u>52,044</u>	<u>11,607</u>	<u>19,858</u>
<b>Accumulated amortisation</b>				
At 1 January 2004	162	7,534	2,964	2,502
Charge for the period	54	1,914	1,266	421
Disposals	—	(21)	—	—
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 30 June 2004	<u>216</u>	<u>9,427</u>	<u>4,230</u>	<u>2,923</u>
<b>Net book value</b>				
At 30 June 2004	<u>9,123</u>	<u>42,617</u>	<u>7,377</u>	<u>16,935</u>

## 9. Trade receivables

Details of the aging analysis are as follows:

	Unaudited 30 June 2004 <i>RMB'000</i>	Audited 31 December 2003 <i>RMB'000</i>
Current to 30 days	549	597
31 days to 60 days	302	836
61 days to 90 days	634	—
Over 90 days but less than one year	1,769	1,418
Over one year	2,180	1,840
	<u>5,434</u>	<u>4,691</u>
Provision	(1,990)	(1,990)
	<u>3,444</u>	<u>2,701</u>

Customers are generally granted credit terms of 90 days.

## 10. Trade payables

Details of the aging analysis are as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2004</b> <b>RMB'000</b>	Audited 31 December 2003 <i>RMB'000</i>
Current to 30 days	278	273
31 days to 60 days	—	—
61 days to 90 days	—	117
Over 90 days but less than one year	686	101
Over one year	1,066	1,065
	<u>2,030</u>	<u>1,556</u>

## 11. Loans from municipal government authorities

The loans from municipal government authorities are repayable as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2004</b> <b>RMB'000</b>	Audited 31 December 2003 <i>RMB'000</i>
Within one year	1,650	1,650

The loans represent government assistance from several PRC municipal government authorities and are unsecured and interest free. All of the loans are repayable on various dates to 31 December 2004.

## 12. Related party transactions

Related parties include companies in which the directors of the Company have beneficial interests or parties which are subject to common control or common significant influence in making financial and operating decisions.

The Group had no significant transactions with related companies during the six-month period ended 30 June 2004.

By Order of the Board

**Wang Hai Bo**

*Chairman*

11 August 2004

Shanghai, the PRC

As at the date thereof, the Board comprises:

Mr. Wang Hai Bo (*Executive Director*)

Mr. Su Yong (*Executive Director*)

Mr. Zhao Da Jun (*Executive Director*)

Mr. Yu Qing Hua (*Non-executive Director*)

Mr. Lou Yi (*Non-executive Director*)

Ms. Fang Jing (*Non-executive Director*)

Mr. Jiang Guo Xing (*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*)