



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)

THIRD QUARTERLY RESULTS REPORT

For the nine months ended 30 September 2006

* *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 GEM 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”) is pleased to present the unaudited results of the Company together with its subsidiaries (collectively the “Group”) for the nine months ended 30 September 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review for the nine months ended 30 September 2006

For the nine months ended 30 September 2006, the Group recorded a turnover of approximately RMB10,726,000, representing a decrease of 35% from that of the same period in 2005. Sales of medical diagnostic products realized a revenue of RMB7,710,000 accounting for 72% of the total turnover for the period, with the remaining 28% of the total turnover which is RMB3,016,000 came from the technology transfer and the provision of technical services. Sales of the medical diagnostic has seen a steady increase of 5% from the level of last corresponding period, whereas the income from technology transfer and technical services has declined significantly. Management’s more cautious attitude in selling research & development (“R&D”) projects, in that only projects which are not included in the self-commercialization plan might be transferred, has led to the declining technology transfers.

For the nine months ended 30 September 2006, cost of sales of the Group was approximately RMB7,713,000, reduced by 5% from the same period last year. Gross profit margin fell from 50% to 28%, because fewer technology projects have been transferred than the same period last year, which contribute a greater proportion to the profit margin.

For the period under review, operating loss of the Group was approximately RMB18,346,000, comparing to RMB11,300,000 for the same period last year. More marketing fees have been spent on exploring new markets in preparation for the launch and entry of the new product Aminolevulinic Acid Hydrochloride (ALA) (鹽酸氨基酮戊酸), as reflected by the increased distribution costs. R&D costs and administrative expenses have been slightly reduced than those of last year.

The Group recorded a loss attributable to the shareholders of the Company of approximately RMB18,490,000 for the nine months ended 30 September 2006, in contrast to RMB9,977,000 for the same period last year.

BUSINESS REVIEW

During the period under review, the Group has made satisfactory progress in the areas of R&D, technological transfer and commercialization.

Applications have been made to the State Food and Drugs Administration of the PRC (“SFDA”) for the approval of clinical study of Vincristine liposome (長春新鹼脂質體), which is a new drug for the treatment of tumors. Clinical study of Aminolevulinic Acid Hydrochloride (ALA) (鹽酸氨酮戊酸) for the treatment of condyloma acuminata (尖銳濕疣) has been completed, with the application made to the SFDA for New Drug Certificate. 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 Production Permit has been made. Application for Production Permit has also been made of Amphotericin-B liposome (兩性黴素B脂質體), which is a drug for the treatment of Mycotic infection (真菌感染). The Group is waiting for the approval from SFDA.

In respect of technology transfer, the Group is actively exploring the overseas market. The Group has strategically transferred the mainland and overseas rights of the R&D projects which are not listed in the self-commercialization plan to different companies, so that it could obtain the maximum benefits from those projects.

With regard to patents, the Group has always been endeavoring in protecting the intellectual property rights of its innovative drugs and other R&D achievements. Within this reviewing period, the Group has applied for 6 new invention patents, and has been granted 3 invention patents.

In the area of commercialization, the Group is making effort to market expansion for the system of medical diagnostic products. In order to go in line with the production of Aminolevulinic Acid Hydrochloride (ALA) (鹽酸氨酮戊酸) and Duxorubicon liposome (鹽酸多柔比星脂質體) next year, the Group has completed the reconstruction of the corresponding production site.

During the period under review, Chairman Wang Haibo was awarded the candidature of 2005 Pudong New Area Innovative Pioneer. Aminolevulinic Acid Hydrochloride (ALA) (鹽酸氨酮戊酸) for exterior usage of the Group was selected as the 2006 Zhangjiang Hi-Tech Park Self-innovative New Products. The Group was ranked Class A+ appraised by Shanghai Hi-tech Enterprises’ Credit Rating. “Beixi - Downs Syndrome Screening System” of the Group has been awarded as one of China National Touch Plan projects.

FUTURE PROSPECTS

Over the past years, the Group has accumulated extensive experiences in R&D, and has taken a leading position in the pharmaceutical industry in the PRC. In the future, the Group will devote efforts to R&D on projects with proprietary intellectual property rights. In particular, drugs for the treatment of dermal diseases and tumors will be of the most importance.

In respect of commercialization, the Group has built up production and sales of diagnostic reagents and Down's Syndrome antenatal screening system. Plus dermal disease drugs and tumor treatment drugs which will be approved for production next year, the Group will complete the transformation from pure a R&D type to a combination of R&D and commercialization soon. In respond to the launch of the new products upon approval, the Group has recruited quite a few talents in the areas of marketing and sales, and has devoted great efforts in setting up the system of marketing and sales. In addition, the Board has approved to establish a wholly-owned distribution subsidiary, in order to improve the entire function of Group incorporating R&D, production, marketing and sales, enabling the Company to step into a better development stage.

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

As at 30 September 2006, 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"); (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 September 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 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%

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%
Ningbo Asia-Pacific Bio-technology Co., Ltd. (寧波亞太生物技術有限公司)	Drug manufacturing	89%
Shanghai Hefeng Pharmaceutical Co., Ltd. (上海禾豐製藥有限公司)	Drug manufacturing	50%
Shanghai Fuda Pharmaceutical Co., Ltd. (上海福達製藥有限公司)	Drug manufacturing	70%
Shanghai Huashi Pharmaceutical Co., Ltd. (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)	R&D of 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%

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 nine months ended 30 September 2006.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based on the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review and provide supervision over the financial reporting process and internal control of the Company and its subsidiaries. The audit committee comprises three independent non-executive Directors of the Company, namely Mr. Pan Fei, who is the chairman, Mr. Weng De Zhang and Mr. Cheng Lin.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the management team of the Company, including a review of the third quarterly report for the nine months ended 30 September 2006.

UNAUDITED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited		Unaudited	
		Three months ended		Nine months ended	
		2006	2005	2006	2005
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover		3,222	9,925	10,726	16,385
Cost of sales		(2,649)	(2,466)	(7,713)	(8,155)
Gross profit		573	7,459	3,013	8,230
Other income		398	1,398	2,316	3,839
Research and development costs		(1,651)	(4,307)	(11,347)	(12,158)
Distribution costs		(3,066)	(1,563)	(5,088)	(4,053)
Administrative expenses		(3,664)	(2,713)	(6,068)	(6,203)
Other operating expenses		(686)	(801)	(1,172)	(955)
Operating loss		(8,096)	(527)	(18,346)	(11,300)
Share of results of an associate		—	104	(679)	(694)
Loss before income tax		(8,096)	(423)	(19,025)	(11,994)
Income tax	2	—	(123)	(5)	986
Loss for the period		(8,096)	(546)	(19,030)	(11,008)
Attributable to:					
Shareholders of the Company		(7,938)	(198)	(18,490)	(9,977)
Minority interests		(158)	(348)	(540)	(1,031)
		(8,096)	(546)	(19,030)	(11,008)
Basic loss per share for loss attributable to the shareholders of the Company (RMB)	3	(0.0112)	(0.0003)	(0.0260)	(0.0141)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies and basis of preparation

The unaudited third quarterly financial statements have been prepared in accordance with IAS 34. The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, as described in the annual financial statements for the year ended 31 December 2005.

The unaudited results include the results of the Company and its subsidiaries. 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. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2. Income tax

	Unaudited three months ended 30 September		Unaudited nine months ended 30 September	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax (expenses) / credit	—	(123)	(5)	986

The Company and its subsidiaries are 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%. As the subsidiaries are recognized as domestic companies registered in Shanghai Pudong New Area, they are also entitled to the reduced Income Tax rate of 15%. Accordingly, the Company and its subsidiaries are subject to Income Tax at a rate of 15%.

3. Loss per share

The calculation of the basic loss per share for the three months ended 30 September 2006 and 30 September 2005 were based on the unaudited loss of approximately RMB7,938,000 (2005: loss of approximately RMB198,000) and the weighted average number of 710,000,000 shares during the three months ended 30 September 2006 (2005: 710,000,000 shares).

The calculation of the basic loss per share for the nine months ended 30 September 2006 and 30 September 2005 were based on the unaudited loss of approximately RMB18,490,000 (2005: loss of approximately RMB9,977,000) and the weighted average number of 710,000,000 shares during the nine months ended 30 September 2006 (2005: 710,000,000 shares).

Diluted loss per share has not been calculated for the three months or nine months ended 30 September 2006 and 30 September 2005 as there were no dilutive potential ordinary shares during the periods then ended.

4. Dividend

The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2006 (2005: Nil).

5. Consolidated statement of changes in equity

	Unaudited					Minority interests	Total equity
	Attributable to shareholders of the Company						
	Share accumulation capital	Statutory common reserve fund	Statutory common welfare fund	Accumulated losses			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance at 1 January 2005	71,000	115,014	1,709	1,120	(39,194)	4,434	154,083
Loss for the period	—	—	—	—	(9,977)	(1,031)	(11,008)
Balance at 30 September 2005	<u>71,000</u>	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(49,171)</u>	<u>3,403</u>	<u>143,075</u>
Balance at 1 January 2006	71,000	115,014	1,709	1,120	(68,279)	3,163	123,727
Loss for the period	—	—	—	—	(18,490)	(540)	(19,030)
Balance at 30 September 2006	<u>71,000</u>	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(86,769)</u>	<u>2,623</u>	<u>104,697</u>

By Order of the Board
Wang Hai Bo
Chairman

As at the date of 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 Yi (*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
8 November 2006