



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)

FIRST QUARTERLY REPORT

For the three months ended 31 March 2011

* 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review for the three months ended 31 March 2011

For the three months ended 31 March 2011, the Group recognized a turnover of approximately RMB9,462,000, comparing to a turnover of RMB13,409,000 for the same period in 2010. This shows a decrease of 29%. The sharply decrease mainly due that the change of the sole agency was under progress and it is estimated that the sales volume would increase steadily from the second quarter. In addition, as the distribution method has changed, the sales revenue of Libod^a will decrease sharply and distribution and marketing costs will decrease accordingly.

The total turnover for the three months ended 31 March 2011 came from the sale of medical products and the provision of related ancillary services and revenue recognized from exclusive rights. The source of total turnover for the three months ended 31 March 2011 was the same as that of this period.

For the three months ended 31 March 2011, the Group incurred cost of sales of approximately RMB2,755,000, comparing to RMB3,747,000 for the same period in 2010. Gross profit margin has reduced to 71% from 72% for the same period in 2010.

For the three months ended 31 March 2011, operating loss of the Group was approximately RMB1,522,000, comparing to RMB3,384,000 for the same period in 2010. Operating loss has reduced by 55% from that of the corresponding period last year. Of the various costs and expenses presented before operating loss, research and development costs have increased by 3%, distribution and marketing costs have decreased by 8%, administrative expenses have increased by 23%, and other operating expenses has decreased by 19%, whereas other income has increased by 259%, respectively, comparing with those of the same period in 2010. The increase of other income is mainly because that during February 2011, the Company has entered into a strategic cooperation agreement with Shanghai Pharmaceutical for the cooperation on innovative pharmaceutical research and development. Both parties will jointly share the risks of, and cooperate on, the research, development and commercialization of the relevant potential pharmaceuticals owned by the Company and its subsidiaries which are currently at various research stages. According to this agreement, the Group recognized about RMB 3,539,000 as other income during the period.

A loss attributable to the shareholders of the Company of approximately RMB1,163,000 was recorded in the unaudited consolidated statement of comprehensive income for the three months ended 31 March 2011, compared with RMB3,320,000 for the same period in 2010.

Business review

During the period under review, the Group has been making progress in the areas of R&D and commercialization pursuing the projected plans.

In the area of R&D, Clinical trial phase III for Hemoporfin (海姆泊芬), a photodynamic new drug for the treatment of Port Wine Stain has been completed, and application for the New Drug Certificate is under progress.

Pre-clinical study for ALA (鹽酸氨酮戊酸), a photodynamic new drug for the treatment of cervical diseases infected by HPV has been completed, and application for clinical study is about to be submitted.

In Year 2010, the Group continued to perform some Pre-clinical study for rhTNFR(m):Fc (High bio-activity recombinant human TNF receptor 2-Fc fusion protein mutant 高活性重組人腫瘤壞死因子受體突變體-Fc融合蛋白) for the treatment of arthritis, and application for clinical study is about to be submitted. Application for a PCT patent for the project has been made.

The Group's Nifeviroc (尼非韋羅) for the treatment of AIDS is in the process of clinical trial phase II.

The Group has been actively protecting its intellectual property rights (IPR) on its innovative medicines and research results. During the period under review, the Group granted 2 invention patents, including 1 Canada invention patent.

During February 2011, the Company has entered into a strategic cooperation agreement with Shanghai Pharmaceutical for the cooperation on innovative pharmaceutical research and development. Both parties will jointly share the risks of, and cooperate on, the research, development and commercialization of the relevant potential pharmaceuticals owned by the Company and its subsidiaries which are currently at various research stages. Refer to the Announcement of the Company dated 23 February 2011 and the circular of the Company dated 8 April 2011 for more details. The cooperation will make significant progress on the pharmaceutical research and development so that the commercialization can be realized as soon as possible. As a continuing connected transaction, the cooperation agreement will be voted at the AGM to be held on 27 May 2011.

In respect of commercialization, since the launch of ALA for the treatment of dermal HPV infectious disease and proliferative disease as represented by Condyloma acuminata, and Libod^a for the treatment of tumors, sales revenue of the products has been increasing steadily. ALA has been approved as Shanghai Patent New Product and Libod^a has been accredited as Shanghai Hi-Tech Result Transfer Project. In order to enhance the marketing capability and increase the sales of Libod^a, the Group signed the Sole Agency Agreement with China NT Pharma Group Company Limited in February 2011, which replaced the exclusive distribution agreement with Nanjing Medical.

Future prospects

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 continue devoting 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 the area of commercialization, the Group has realized production and sales on diagnostic products, ALA and Libod^a for the treatment of tumor. The revenue has been increasing steadily. It is expected that the future sales will be increasing extensively. The Group has successfully accomplished the transformation from pure R&D to a combination of R&D and commercialization. An intact system of R&D, production, sales and marketing combined orderly has been formed. The Group will be able to progress to a better development stage.

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

As at 31 March 2011, 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 Shares held	Capacity	Type of interest	Percentage in the class of shares capital	Percentage 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 March 2011, 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 Industrial Investment Holdings Co., Ltd.	Domestic Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	27.26%	29.60%
	H Shares	70,564,000 (L)		Corporate	35.64%	
Shanghai Pharmaceutical Co., Ltd.	Domestic Shares	139,578,560 (L)	Beneficial Owner	Corporate	27.26%	29.60%
	H Shares	70,564,000 (L)		Corporate	35.64%	
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	30,636,286 (L)	Interest of controlled corporation	Corporate	5.98%	4.31%
Shanghai Fudan Asset Operating Limited (上海復旦資產經營有限公司)	Domestic Shares	30,636,286 (L)	Beneficial Owner	Corporate	5.98%	4.31%

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 three months ended 31 March 2011.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors of the Company, namely Mr. Pan Fei, who is the chairman, Mr. Weng De Zhang, who is the vice chairman, and Mr. Cheng Lin. Mr. Pan Fei holds a recognized professional qualification as prescribed by the GEM Listing Rules.

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 first quarterly report for the three months ended 31 March 2011 before proposing to the Board for approval.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	
		Three months ended 31 March	
	Note	2011 RMB'000	2010 RMB 000
Turnover	2	9,462	13,409
Cost of sales		(2,755)	(3,747)
Gross profit		6,707	9,662
Other income		6,829	1,904
Research and development costs		(4,501)	(4,390)
Distribution and marketing costs		(7,229)	(7,855)
Administrative expenses		(3,306)	(2,678)
Other operating expenses		(22)	(27)
Operating loss		(1,522)	(3,384)
Finance costs		(714)	(599)
Loss before income tax		(2,236)	(3,983)
Income tax expenses	3	—	—
Loss for the period		(2,236)	(3,983)
Other comprehensive income		—	—
Available-for-sale investments		—	—
Total comprehensive loss for the period		(2,236)	(3,983)
Loss attributable to:			
Shareholders of the Company		(1,163)	(3,320)
Minority interests		(1,073)	(663)
		(2,236)	(3,983)
Total comprehensive loss attributable to:			
Shareholders of the Company		(1,163)	(3,320)
Minority interests		(1,073)	(663)
		(2,236)	(3,983)
Basic and diluted loss per share for loss attributable to the shareholders of the Company (RMB)	4	(0.0016)	(0.0047)

NOTES

1. Accounting policies and basis of preparation

The unaudited consolidated first quarterly financial information of the Group has been prepared in accordance with IAS 34. The accounting policies adopted in preparing the unaudited consolidated financial information for the three months ended 31 March 2011 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

The unaudited consolidated financial information includes the financial information of the Company and its subsidiaries made up to 31 March. 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. 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 medical products and the provision of related ancillary services in the PRC. Turnover recognized during the reporting period is as follows:

	Unaudited	
	Three months ended 31 March	
	2011	2010
	RMB'000	RMB 000
Sales of medical products and the provision of related ancillary services	9,045	12,527
Exclusive rights (a)	417	882
Technology transfer revenue	—	—
	9,462	13,409

- (a) On 22 February 2011, the Company entered into the Sole Agency Agreement with China NT Pharma Group Company Limited to offer the sole agency rights of Doxorubicin Liposome Injection products from 1 March 2011 to 28 February 2015, for a total consideration of RMB20,000,000, of which an amount of RMB417,000 is recognized as revenue within the period under review.

On 18 April 2009, the Company signed a contract with Nanjing Medical to offer the exclusive distribution rights of Doxorubicin Liposome Injection products for a total consideration of RMB20,000,000, of which an amount of RMB882,000 is recognized as revenue within the same period in 2010. This contract was terminated on 31 December 2010 and the remaining balance of the exclusive distribution rights will be repaid to Nanjing Medical.

3. Income tax expense

		Unaudited		
		Three months ended 31 March		
		2011	2010	
		<i>RMB'000</i>	<i>RMB 000</i>	
Income tax expense				

Under the Corporate Income Tax Law of the People's Republic of China, as the Company was certified as a New and High Technology Enterprise, it is entitled to a reduced income tax rate of 15%. The corporate income tax rate applicable to the subsidiaries is 25%. In 2009, the Company obtained an approval for an income tax incentive of two-year full exemption followed by a three-year 50% reduction, with year 2008 being the first tax-free year.

4. Loss per share

The calculation of the basic loss per share for the three months ended 31 March 2011 was based on the unaudited loss attributable to shareholders of the Company of approximately RMB1,163,000 (2010: loss attributable to shareholders of the Company of approximately RMB3,320,000) and the weighted average number of 710,000,000 shares during the three months ended 31 March 2011 (2010: 710,000,000 shares).

Diluted loss per share has not been calculated for the three months ended 31 March 2011 and three months ended 31 March 2010 as there were no dilutive potential ordinary shares during the periods then ended.

5. Dividend

The Board of Directors does not recommend the payment of an interim dividend for the three months ended 31 March 2011 (2010: Nil).

6. Consolidated statement of changes in equity

	Unaudited						
	Attributable to shareholders of the Company						
	Capital		Statutory common reserve fund		Accumulated losses	Minority interests	Total
	Share capital RMB 000	accumulation reserve RMB 000		RMB 000	RMB 000	RMB 000	RMB 000
Balance at 1 January 2010	71,000	211,367		2,829	(149,507)	32,679	168,368
Comprehensive loss							
Loss for the period	—	—	—	—	(3,320)	(663)	(3,983)
Total comprehensive loss					(3,320)	(663)	(3,983)
Transactions with owners							
Acquisition of minority interests (a)	—	—	(127)	—	—	(721)	(848)
Total transactions with owners			(127)			(721)	(848)
Balance at 31 March 2010	<u>71,000</u>	<u>211,240</u>	<u>2,829</u>	<u>(152,827)</u>	<u>31,295</u>	<u>163,537</u>	
Balance at 1 January 2011	71,000	211,240	2,829	(145,826)	29,462	168,705	
Comprehensive loss							
Loss for the period	—	—	—	—	(1,163)	(1,073)	(2,236)
Total comprehensive loss					(1,163)	(1,073)	(2,236)
Balance at 31 March 2011	<u>71,000</u>	<u>211,240</u>	<u>2,829</u>	<u>(146,989)</u>	<u>28,389</u>	<u>166,469</u>	

- (a) In January 2010, the Company entered into a share transfer agreement with one of its shareholders, Shanghai Zhangjiang (Group) Co., Ltd. (SZCL) to acquire all SZCL's 31.25% interests in the Company's subsidiary Morgan-Tan. The consideration is RMB848,000. After the acquisition, Morgan-Tan became a wholly owned subsidiary of the Company.

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*)
Ms. Fang Jing (*Non-executive Director*)
Mr. Zhou Jie (*Non-executive Director*)
Mr. Guo Jun Yu (*Non-executive Director*)
Mr. Hao Hong Quan (*Non-executive Director*)
Mr. Zhu Ke Qin (*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

10 May 2011