



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)

THIRD QUARTERLY REPORT

For the nine months ended 30 September 2011

* *For identification purpose only*

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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 hereto presents the unaudited consolidated interim results of the Company together with its subsidiaries (collectively the “Group”) for the nine months ended 30 September 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review for the nine months ended 30 September 2011

For the nine months ended 30 September 2011, the Group recorded a turnover of approximately RMB72,861,000, comparing to a turnover of approximately RMB53,609,000 for the same period in 2010. This represents an increase of 36%.

The total turnover for the nine months ended 30 September 2011 came from the sale of medical products and the provision of related ancillary services and revenue recognized from exclusive distribution rights. The source of total turnover for the nine months ended 30 September 2010 was the same as that of this period of 2011. The new product, ALA (艾拉®), which the Group launched during the second half of 2007, has now entered into a rapidly developed selling cycle, after over three year’s market exploration and expansion of distribution channel.

For the nine months ended 30 September 2011, cost of sales of the Group was approximately RMB15,707,000, comparing to RMB11,408,000 for the same period in 2010. Gross profit was approximately RMB57,154,000, which increased 36% by that of the same period in 2010. Gross profit margin has decreased to 78% from 79% for the same period in 2010.

Within the period under review, operating profit of the Group was approximately RMB5,962,000, compared to the operating loss RMB1,026,000 for the same period in 2010. Of the various costs and expenses presented before operating gain, distribution and marketing costs have increased by 53%, administrative expenses have increased by 41%, and other income has increased by 116%, respectively, comparing with those of the same period in 2010. The increase of distribution and marketing costs is mainly due to the increase of distribution and marketing costs of ALA which increased in line with its sales. The increase of administrative expenses is mainly contributed by the increase of employee payroll expenses. The mainly factors driving the increase of other income were the realization of income from the strategic cooperation agreement with Shanghai Pharmaceutical Holding Co., Ltd. (“Shanghai Pharmaceutical”, a shareholder of the Company) for the cooperation on innovative pharmaceutical research and development amounted to RMB 10,754,000.

A profit attributable to shareholders of the Company of approximately RMB6,142,000 was recorded in the unaudited consolidated income statements for the nine months ended 30 September 2011, whereas the loss attributable to shareholders of the Company for the same period in 2010 was RMB1,805,000.

Business review

Committed to the principle “The more we explore, the healthier human beings will be”, the Group aims to become a pioneer in the bio-pharmaceutical industry, by focusing on the R&D of genetic engineering, new drug screening, and commercialization of patent drugs and special drugs that suit the PRC market.

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 Hemoporphin (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 has been submitted.

The Group obtained a grant of RMB3,500,000 from the Key National S&T Program, “Major New Drug Development”, for its Deuteroporphyrin (多替泊芬), a Photodynamic therapy drug for the treatment of tumors.

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 has been completed, and application for clinical study is about to be submitted. Application for a PCT patent for the project has been made.

Due to its technology risk, clinical trial phase II of the Group’s Nifeviroc (尼非韋羅) which is focused on the treatment of AIDS has been ceased. The research on preventing AIDS by Nifeviroc is now under progress.

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 3 invention patents.

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 has been approved on the AGM 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® 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® has been accredited as Shanghai Hi-Tech Result Transfer Project. In order to enhance the marketing capability and increase the sales of Libod®, 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® 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 30 September 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 respective class of share 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 30 September 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)			35.64%	
Shanghai Pharmaceutical Holding Co., Ltd.	Domestic Shares	139,578,560(L)	Beneficial Owner	Corporate	27.26%	29.60%
	H Shares	70,564,000(L)			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	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 nine months ended 30 September 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. The audit committee reviewed the third quarterly report for the nine months ended 30 September 2011 before proposing to the Board for approval.

The Directors hereto present the unaudited consolidated third quarterly results of the Company together with its subsidiaries (collectively the "Group") for the nine months ended 30 September 2011.

UNAUDITED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Turnover	2	33,817	17,711	72,861	53,609
Cost of sales		(4,862)	(3,375)	(15,707)	(11,408)
Gross profit		28,955	14,336	57,154	42,201
Other income		5,063	5,000	20,767	9,605
Research and development costs		(5,991)	(4,241)	(14,997)	(14,998)
Distribution and marketing costs		(18,591)	(10,424)	(44,241)	(28,934)
Administrative expenses		(4,112)	(2,919)	(12,121)	(8,576)
Other operating expenses		(3)	(272)	(600)	(324)
Operating profit / (loss)		5,321	1,480	5,962	(1,026)
Finance costs		(1,680)	(734)	(3,440)	(2,090)
Income / (loss) before income tax		3,641	746	2,522	(3,116)
Income tax expense	3	(1,740)	(600)	700	(600)
Income / (loss) for the period		1,901	146	3,222	(3,716)
Other comprehensive income/ (loss)					
Available-for-sale investments		(7)	—	(7)	—
Total comprehensive income/ (loss) for the year		1,894	146	3,215	(3,716)
Income / (loss) attributable to:					
Shareholders of the Company		2,789	496	6,142	(1,805)
Minority interests		(888)	(350)	(2,920)	(1,911)
		1,901	146	3,222	(3,716)

	Note	Unaudited		Unaudited	
		Three months ended		Nine months ended	
		30 September		30 September	
		2011	2010	2011	2010
		RMB'000	RMB'000	RMB'000	RMB'000
Total comprehensive income / (loss) attributable to:					
Shareholders of the Company		2,784	496	6,137	(1,805)
Minority interests		(890)	(350)	(2,922)	(1,911)
		<u>1,894</u>	<u>146</u>	<u>3,215</u>	<u>(3,716)</u>
Basic and diluted income / (loss) per share for income / (loss) attributable to the shareholders of the Company (RMB)	4	<u>0.0039</u>	<u>0.0007</u>	<u>0.0087</u>	<u>(0.0025)</u>

Notes:

1. Accounting policies and basis of preparation

The consolidated unaudited third 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 nine months ended 30 September 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 30 September. 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		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Sales of medical products and the provision of related ancillary services	32,567	16,829	69,945	50,162
Exclusive rights	1,250	882	2,916	2,647
Technology transfer revenue	—	—	—	800
	<u>33,817</u>	<u>17,711</u>	<u>72,861</u>	<u>53,609</u>

3. Income tax

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax	(1,740)	(600)	700	(600)

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. Profit/(loss) per share

The calculation of the basic profit per share for the three months ended 30 September 2011 was based on the unaudited profit attributable to shareholders of the Company of approximately RMB2,789,000 (2010: profit attributable to shareholders of the Company of approximately RMB496,000) and the weighted average number of 710,000,000 shares during the three months ended 30 September 2011 (2010: 710,000,000 shares).

The calculation of the basic profit/(loss) per share for the nine months ended 30 September 2011 was based on the unaudited profit attributable to shareholders of the Company of approximately RMB6,142,000 (2010: loss attributable to shareholders of the Company of approximately RMB1,805,000) and the weighted average number of 710,000,000 shares during the nine months ended 30 September 2011 (2010: 710,000,000 shares).

Diluted profit/(loss) per share has not been calculated for the three months or nine months ended 30 September 2011 and 30 September 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 nine months ended 30 September 2011 (2010: Nil).

6. Consolidated statement of changes in equity

	Unaudited					Total RMB'000
	Attributable to shareholders of the Company					
	Share capital RMB'000	Capital accumulation reserve RMB'000	Statutory common reserve fund RMB'000	Accumulated losses RMB'000	Minority interests 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	—	—	—	(1,805)	(1,911)	(3,716)
Total comprehensive loss	—	—	—	(1,805)	(1,911)	(3,716)
Transactions with Owners						
Acquisition of minority interests (a)	—	(127)	—	—	(721)	(848)
Total transactions with owners	—	(127)	—	—	(721)	(848)
Balance at 30 September 2010	<u>71,000</u>	<u>211,240</u>	<u>2,829</u>	<u>(151,312)</u>	<u>30,047</u>	<u>163,804</u>
Balance at 1 January 2011	71,000	211,240	2,829	(145,826)	29,462	168,705
Comprehensive profit						
Profit/(loss) for the period	—	—	—	6,142	(2,920)	3,222
Other comprehensive income						
Available-for-sales investments	—	(5)	—	—	(2)	(7)
Total comprehensive profit/(loss)	—	(5)	6,142	(2,922)	3,215	—
Balance at 30 September 2011	<u>71,000</u>	<u>211,235</u>	<u>2,829</u>	<u>(139,684)</u>	<u>26,540</u>	<u>171,920</u>

- (a) In January 2011, the Company entered into a share transfer agreement with 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. SZCL is the parent company of Shanghai Zhangjiang Hi-Tech Park Development Corp., one of the Company's shareholders.

By Order of the Board
Wang HaiBo
Chairman

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*)
Ms. Fang Jing (*Non-executive Director*)
Mr. Hao Hong Quan (*Non-executive Director*)
Mr. Zhu Ke Qin (*Non-executive Director*)
Mr. Ge Jian Qiu (*Non-executive Director*)
Ms. Ke Ying (*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

9 November 2011