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: 1349)

INTERIM REPORT

For the six months ended 30 June 2017

* *For identification purpose only*

FIVE YEARS FINANCIAL DATA HIGHLIGHTS

RESULTS

	Unaudited				
	Six months ended 30 June				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**272,040**	241,910	214,224	153,370	156,933
Operating profit	**55,542**	51,345	45,026	41,371	34,050
Finance costs	**(2,862)**	(2,332)	(2,720)	(1,057)	(3,515)
Profit before income tax	**52,680**	49,013	42,306	40,314	30,535
Income tax expense	**(7,133)**	(7,475)	(5,138)	(5,034)	(6,315)
Profit for the period	**45,547**	41,538	37,168	35,280	24,220
Profit attributable to:					
Shareholders of the Company	**49,572**	45,936	39,661	36,296	27,904
Non-controlling interests	**(4,025)**	(4,398)	(2,493)	(1,016)	(3,684)
Total comprehensive income for the period	**45,367**	41,538	37,168	35,280	24,220
Total comprehensive income attributable to:					
Shareholders of the Company	**49,392**	45,936	39,661	36,296	27,904
Non-controlling interests	**(4,025)**	(4,398)	(2,493)	(1,016)	(3,684)
EBITDA	**78,710**	65,524	63,433	53,356	41,042
Basic and diluted earnings per share for profit attributable to the shareholders of the Company	**RMB0.0537**	RMB0.0498	RMB0.0430	RMB0.0393	RMB0.0337

ASSETS AND LIABILITIES

	Unaudited	Audited			
	30 June	31 December			
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,190,625**	1,120,753	1,020,265	824,481	749,216
Total liabilities	**(312,803)**	(247,699)	(254,425)	(148,062)	(183,291)
	877,822	873,054	765,840	676,419	565,925
Capital and reserves attributable to:					
Shareholders of the Company	**846,796**	843,554	732,630	650,975	532,717
Non-controlling interests	**31,026**	29,500	33,210	25,444	33,208
	877,822	873,054	765,840	676,419	565,925

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW FOR THE SIX MONTHS ENDED 30 JUNE 2017

REVENUE

The consolidated revenue of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") and its subsidiaries (collectively as the "Group") for the six months ended 30 June 2017 amounted to approximately RMB272,040,000, comparing to approximately RMB241,910,000 for the same period in 2016, representing an increase of 12%. The main reason is that sales of LIBOd® (里葆多®，鹽酸多柔比星脂質體，Doxorubicin liposome) and ALA (艾拉®，鹽酸氨酮戊酸散), the major products of the Group, had outstanding performance during this period in 2017. At the same time, the new product of the Group, FuMeiDa (复美达®，海姆泊芬，Hemoporfin) has been launched to the market during the period under review and contributed revenue to the Group.

The total revenue for the six months ended 30 June 2017 mainly came from the sale of medical products. The main source of total revenue for the six months ended 30 June 2016 was nearly the same as that of this period in 2017.

The major products of the Group are ALA and FuMeiDa from photodynamic platform, LIBOd® from Nano-drug platform and various kinds of diagnostic reagents from diagnosis technology platform. The Company has signed the sole agency agreement with NT Pharma (Jiangsu) Co., Ltd. ("NT Pharma") and granted it the exclusive distribution rights of LIBOd®. The work of sales and distribution of LIBOd® to the end customers nationwide is conducted by the sales team of NT Pharma and that of the rest of the products is taken by the sales team of the Group.

Revenue of the Group from the sale of medical products for the six months ended 30 June 2017 was approximately RMB269,960,000 (representing 99.24% of the total revenue), increased by 12% from the same period in 2016 which was approximately RMB241,415,000. The major products of the Group, LIBOd® and ALA, have contributed 45% and 48% of the total revenue of the Group for this period, respectively.

COST OF SALES

For the six months ended 30 June 2017, cost of sales of the Group was approximately RMB23,838,000, while the corresponding figure for the same period in 2016 was approximately RMB19,703,000. Gross profit margin for the six months ended 30 June 2017 was 91%, which remained stable as compared to that of the same period in 2016. The Group has been implementing the strict cost control and making the best efforts to keep the current gross profit margin while maintaining the existing product structure.

OPERATING PROFIT

For the six months ended 30 June 2017, operating profit of the Group was approximately RMB55,542,000 comparing to the operating profit of approximately RMB51,345,000 for the same period in 2016, representing an increase of 8%.

Expenditure and other income presented before operating profit are as follows:

- Other income

  Other income for the six months ended 30 June 2017 was approximately RMB32,999,000, compared with approximately RMB33,706,000 for the same period in 2016, representing an decrease of 2%. Other income during this period includes the income from Shanghai Pharmaceuticals Holding Co., Ltd. ("Shanghai Pharmaceuticals"), a shareholder of the Company, for the strategic cooperation on innovative pharmaceutical research and development amounting to approximately RMB7,670,000, compared with approximately RMB7,334,000 for the same period in 2016. Besides, due to a decrease in government grants, the Group has recognised related income amounting to approximately RMB17,806,000 for the six months ended 30 June 2017, compared with approximately RMB20,229,000 for the same period in 2016. For more details, please refer to Note 7 to the Condensed Consolidated Interim Financial Information in this report.

- Research and development ("R&D") costs

  The Group adopts a conservative and prudent capitalization policy for R&D projects. Only the expenses incurred on those projects which were evaluated to be feasible in technology with clear objective, controllable risks and probable future economic benefits can be capitalized. Therefore, most of R&D costs were recognised as expenses as incurred. R&D costs for the six months ended 30 June 2017 were approximately RMB44,379,000, compared with approximately RMB40,441,000 for the same period in 2016, representing an increase of 10%. The rise in R&D costs is mainly due to the increase in additional expenditure based on the progress of research projects. The ratio of R&D costs to revenue for the six months ended 30 June 2017 was 16% (Six months ended 30 June 2016: 17%).

- Distribution and marketing costs

  Distribution and marketing costs for the six months ended 30 June 2017 were approximately RMB158,932,000, compared with approximately RMB145,848,000 for the same period in 2016, representing an increase of 9%. The distribution and marketing costs grew in line with the increase in revenue for sale of products. FuMeiDa which is the new product of the Group during the period under review, is trying to adopt a new sales model in order to reduce the ratio of distribution and marketing costs to revenue for sale of products more effectively.

- Administrative expenses

  Administrative expenses for the six months ended 30 June 2017 were approximately RMB22,098,000, compared with approximately RMB18,076,000 for the same period in 2016, representing an increase of 22%. It is mainly due to the increases of operating costs such as payroll and the one-time expenses on opening of new clinics invested by Derma Clinic Investment Co., Ltd.* (德美診聯醫療投資管理有限公司) ("Derma Clinic"), the subsidiary of the Company, during the period under review.

- Other operating expenses

  Other operating expenses for the six months ended 30 June 2017 were approximately RMB250,000. Other operating expenses for the same period in 2016 were approximately RMB203,000. These expenses mainly include the bank charges.

FINANCE COSTS

For the six months ended 30 June 2017, finance costs of the Group were approximately RMB2,862,000, compared with approximately RMB2,332,000 for the same period in 2016, representing an increase of 23%. It is mainly due to new short-term borrowings by the Group during the period under review.

INCOME TAX

Effective from 1 January 2008, the Group except for Fernovelty (Hong Kong) Holding Co., Ltd. ("Fernovelty Holding") is required to determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") as approved by the National People's Congress on 16 March 2007. The Company and one of the subsidiaries, Shanghai Tracing Bio-technology Co., Ltd., ("Tracing") were recognised as high-tech enterprises, and their applicable tax rates are 15% for the six months ended 30 June 2017. The applicable tax rates of the rest Mainland China subsidiaries are 25% for the six months ended 30 June 2017.

The Hong Kong subsidiary, Fernovelty Holding, was incorporated in 2016 and is subject to profits tax rate of 16.5% in Hong Kong.

As at 30 June 2017, the applicable tax rate and tax policy of the Group remained unchanged as compared with the full year of 2016.

PROFIT FOR THE PERIOD

For the six months ended 30 June 2017, the profit of the Group was approximately RMB45,547,000, compared with that of approximately RMB41,538,000 for the same period in 2016, representing an increase of approximately 10%.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Profit attributable to the shareholders of the Company of approximately RMB49,572,000 was recorded in the unaudited interim consolidated statement of comprehensive income for the six months ended 30 June 2017, compared with that of approximately RMB45,936,000 for the same period in 2016, representing an increase of approximately 8%.

BUSINESS REVIEW

With the ultimate goal to stay as an innovator and a leader in the bio-pharmaceutical industry, the Group has committed to exploring unmet needs and deficiencies of clinical treatment as well as developing novel and more effective treatments/medicines as our core position, so as to realize our mission that "The More We Explore, the Healthier Human Beings Will Be".

During the period under review, the Group has been making progress in pursuing its projected plans in the areas of R&D and commercialization. The Group will continue to focus on the following four technical platforms: genetic engineering platform, photodynamic technique platform, nano technique platform and diagnosis technique platform.

In the area of R&D, the clinical trial approval for high bio-activity recombinant human TNF receptor (重組親和力TNF受體) for the treatment of arthritis has been obtained in May 2014, and the project was in the stage of clinical trial phase I. The drug is mainly used to treat self-immunological diseases, such as arthritis. The size of potential market is enormous. The Group holds independent intellectual property right ("IPR") of the drug and has applied for PCT patent. It will be one of the key R&D projects of the Group.

Avastin for the treatment of tumor has obtained the approval of clinical trial. The Group will start clinical trial according to the relevant regulations of bio-similar drugs soon.

Aminolevulinic Acid Hydrochloride used for the treatment of cervical intraepithelial neoplasia ("CIN") infected by HPV has entered into clinical trial phase II. Currently the cause of the disease is known but there is no effective therapy for it. Our product will be the first therapy of CIN. Striving to perfect the screening work of the follow-up therapeutic regimens synchronous with the research in clinical stage, the Group put a lot of time and effort in the design and optimization of operation process and other clinical programs work, which causes the slow process of development. During the period under review, the Group has engaged in the recruitment of clinical patients.

Aminolevulinic Acid Hydrochloride used for the treatment of moderate and severe acne has started clinical trial phase I during the period under review.

Aminolevulinic Acid Hydrochloride used for the adjunctive therapy of brain gliomas has completed pre-clinical study. The production line of the project has been transforming and will apply for clinical approval soon.

Duteroporphyrin (多替泊芬) for the treatment of tumors has entered into the clinical trial phase II. In addition to the clinical study of bladder cancer treatment, the Group started clinical trial phase II for hilarcholangiocarcinoma during the period under review according to the feedback from patients and R&D result in earlier study.

FuMeiDa, the first photodynamic drug for the treatment of Port Wine Stain, is a new drug with new target, new compound and new indication. During the year under review, FuMeiDa has been launched to the market officially. Port-wine stain ("PWS") is the most common congenital vascular malformation characterized by ectatic capillaries in the papillary layer of the dermis. The visible manifestation of this disorder is often considered a disfigurement. The lesions tend to become darker and thicker with time and rarely fade away for life. PWS occurs in anywhere on the body and particularly in face and neck and is reported about 0.3~0.4% incidence of infants worldwide. Before age 40, over 65% of patients without treatment will face the situation of thicken and modular lesions cause great emotional depression. After injection into the blood, Hemoporfin spreads quickly to the surrounding tissues and tends to distribute specifically in vascular endothelial cells. It would selectively damage the photosensitizer-rich vascular endothelium by the use of laser or LEDs with certain wavelength. The dilated and abnormal capillaries in the lesions of patients will be cleared by photodynamic reaction and further effects of coagulation system. As one of the second generation photosensitizer, compared with traditional therapies, Hemoporfin is featured by stable chemical structure, lower photosensitization, faster metabolism, shorter light-avoidance period requirement, more uniform to treat, higher cure rate, lower incidence of scar formation and lower recurrence rate. During the period under review, the Group has started clinical trial phase IV after the launch of FuMeiDa, as well as planning on the international registration of Hemoporfin.

LIBOd® for the treatment of tumors, was launched to market in August 2009. The drug is a new doxorubicin formula which adopts the advanced stealth liposomal encapsulation technology and has passive targeting characteristics. It is a new generation of replacement for anthracycline drugs. In oncology, it has the advantages of enhancing efficacy and remarkably lowering the effects of cardiac toxicity, myelosuppression and hair-loss. LIBOd® is used for the treatment of AIDS-relating Kaposi's sarcoma, breast cancer and ovarian cancer. Registration for the drug is being carried out in the United States ("U.S.") taking into account the tremendous market capacity of breast cancer. Appropriate communication will be made on clinical studies results with U.S. Food and Drug Administration ("FDA") as soon as possible. After the clinical studies are confirmed, the Group will be required to further obtain the verification of good quality management system of our production plant by FDA before the drug can be launched to the market.

The pre-clinical study on Nanoparticle Albumin-bound Paclitaxel (紫杉醇白蛋白納米粒) is under way. The production line of the project has been completed and the clinical samples are tested during the period under review.

In respect of commercialization, ALA which is indicated for the treatment of dermal HPV infectious disease and proliferative disease and LIBOd® which is indicated for the treatment of tumor are two major products of the Group, the sales of which remained stable since their launch, and together contributed 93% of the sales revenue generated by the Group.

During the period under review, FuMeiDa has been sold in several hospitals throughout the country and a total of more than 400 patients were treated with well postoperative feedback. The Group will combine case feedback as soon as possible to optimize the key steps in the process of treatment in order to form standardized treatment plan.

During the period under review, one of the clinics invested by Derma Clinic had completed the registration and filing procedures with the relevant authorities. As at 30 June 2017, eight clinics had completed the relevant registration procedure in Beijing, Shenzhen, etc., three of them had been opened and another one had been given the permit for the opening which will be opened for business soon. In the second half of 2017, we plan to gradually open a further five clinics.

FUTURE PROSPECTS

With an overall consideration of research resources, risks and cycles, the Group classified the R&D projects according to its affiliated platforms under the original research strategy. Besides, the following management classifications were also applied:

- **The projects for exploratory purpose,** such as the development of anti-infective drugs for the treatment of resistant fungis and staphylococcus aureus, the research on new nanotech with albumin, the development of a new antibody cross-linking drug (ADC), the development of anti-tumor immunity rejection factors in Wnt signaling pathway, the research on the anticancer effect of photodynamic drugs and immunotherapy and the exploratory research on Jagged antibody which interacted between Notch signaling pathway and Hippo signaling pathway for the treatment of liver cancer. This kind of projects focus on the diseases with unmet needs and the deficiency of clinical and patients treatment. It needs to be further explored due to their great uncertainties although they are of great importance in the areas of science and clinical treatment.

- **The projects with important breakthrough in clinical treatment,** such as the developments of drugs for the treatment of CIN, drugs to improve the effectiveness of the treatment of hilarcholangiocarcinoma, drugs to decrease the recurrence rate of bladder cancer, drugs for the treatment of acne and high bio-activity recombinant human TNF receptor. This kind of projects has definite significance in the area of scientific theory and would provide new treatments with breakthrough in the area of clinical application. These projects have completed pre-clinical studies and now in the stage of clinical verification and exploration.

- **The projects for commercialization purpose,** such as those high-end drugs which broke through technical hurdles including the international registration of Doxorubicin Hydrochloride Liposome and the commercialization of generic drugs such as nanoparticle Albumin-bound Paclitaxel; those drugs which broke through patent limitation such as new generic drugs for the indication of biliary cirrhosis as well as other innovative or generic solid modified-release drugs; those drugs which obtained clinical trial approval including the photodynamic drug for the treatment of moderate and severe acne and the bio-similar drugs such as monoclonal antibody against VEGF; and those drugs which planned to submit the clinical trial application such as a photodynamic drug for the treatment of brain gliomas. This kind of projects is of specific importance in clinical treatment and has completed the research on technology. Continuously pushing the clinical research and commercialization is the main purpose in our current stage which will expand the number of drugs as well as the production scale and make contribution to the sales and profit of the Group in the short to medium term.

The classification of our R&D projects embodies the concept of the Group “stand on solid ground and look up at the starry sky”. The innovative research of drugs faces great challenges, but we believe that the suitable R&D strategy will lead the Group moving toward a virtuous stage of development. In the fields that we have adequate scientific theory and technology, we will keep exploring and developing drugs to meet clinical needs so as to realize the value of the Group. On the other hand, we shall not stand on the position without the support of scientific theory or technical skills. We are willing to cooperate with outstanding science teams to find out scientific evidence so as to explore the treatments which are lack of now. Meanwhile, we shall also pay attention to the international development of the drugs with major breakthrough. We would research and develop generic drugs or similar drugs to improve effectiveness of treatment for our countrymen, especially the drugs which break through technical barriers or patent limitation.

We strengthened the development and improvement of our technology. At present, we have made progress on antibody technology, cross-linking technology and nano-drug technology. On the other hand, we increased the investment in the research of solid high-end drugs so that we have the ability to improve and optimize those drugs which have been already launched to the market and provide us with more methods to solve the deficiency of clinical treatment. We are looking forward to exploring and developing more drugs with the support of these technologies in the near future.

As a R&D company which emphasizes on the research from needs of clinical treatment, our choices face challenges but have extraordinary significance as well. We will try our best to avoid involving in trouble of homoplasy as a result of lack of scientific evidence and thus selecting projects from the drugs which were well developed overseas.

In the area of commercialization, the Group has realized production and sales on diagnostic reagents, ALA, LIBOd® and FuMeiDa. As more products are continuously launched to the market, it is expected that the future sales revenue will be increasing continuously.

All the product lines of the Group obtained the good manufacturing practices certification ("GMP Certification") of China Food and Drug Administration ("CFDA"). Our objective is to set up the production lines which can meet international standards so that our products could be sold worldwide.

Moreover, considering that more drugs are going to be registered, Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou Pharmaceutical"), a subsidiary of the Company, has constructed two production lines for producing the material and injection treatments of Hemoporfin. To make the two production lines at full capacity before new self-developed drugs obtaining production approval, the Group has chosen several generic drugs which can be produced with Hemoporfin on the same production line and planned to submit the application of registration. The work of technology research of these generic drugs has been completed and their registration applications are planned to be submitted gradually starting from the second half of the year. More investment in other relevant production lines will be made in the next few years so as to make it gradually become the centralized production base of the Group.

The Group has successfully accomplished the transformation from purely R&D to equal emphasis on both R&D and commercialization with a complete system featuring organic combination of R&D, product manufacturing and marketing. The Group is moving toward a virtuous stage of development.

DIVIDEND

The board of Directors ("Board") did not recommend the payment of an interim dividend for the six months ended 30 June 2017 (Six months ended 30 June 2016: Nil).

CHARGE ON ASSETS

As at 30 June 2017, seven intellectual properties of the Group were pledged as securities of bank borrowings. These intellectual properties do not have any carrying values in the Group's financial statements for the six months ended 30 June 2017.

Saved as disclosed above, there were no other charges on the Group's assets as at 30 June 2017.

SIGNIFICANT INVESTMENTS

The Board approved the Company to establish a subsidiary named Derma Clinic at the meeting of 12 December 2014. The Company received the approval and completed the registration and filing procedures with the relevant authorities regarding the establishment of Derma Clinic on 4 August 2015. Derma Clinic will make investment to establish and operate nationwide skin beauty chain clinics, by taking advantage of the brand effect and market share of the Company in the skin beauty field of medical market. Derma Clinic's registered capital is RMB50,000,000. As at 30 June 2017, the Company has paid RMB20,034,000 and the rest will be paid pursuant to the investment agreement and prospective actual situation. Details of this transaction were set out in the announcements issued by the Company on 12 December 2014 and 4 August 2015.

During the period under review, Fernovelty Holding, a subsidiary of the Company, entered into the subscription agreement with an overseas biopharmaceutical company, Adgero Biopharmaceuticals Holdings, Inc. ("Adgero") to purchase ordinary shares and warrants with a total consideration of USD2,000,000 (equivalent to approximately RMB13,775,000). Adgero mainly focuses on research and development of photodynamic therapy drugs. During the period under review, the registration and filing procedures with the relevant authorities regarding this transaction has been completed and the Group had fully paid the consideration amounting to RMB13,775,000 which is accounted for as available-for-sale financial assets. The Group holds 400,000 ordinary shares of Adgero, which currently account for approximately 7.4% of the total issued share capital of Adgero. After the completion of the investment, the Group will take advantage of that company's overseas photodynamic platform to address the research and registration procedure for photodynamic products in the United States and more strategic cooperation between Adgero and the Group will be considered in the future.

Saved as disclosed above, the Group had no other significant investments during the six months ended 30 June 2017.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and associated companies during the six months ended 30 June 2017.

BANK BORROWINGS

As at 30 June 2017, the outstanding amount of the loans of the Group was RMB160,000,000, which includes:

On 24 October 2016, the secured bank borrowing of RMB30,000,000 was taken by the Company, bore a fixed interest rate at 4.14% per annum. The borrowing was due for repayment on 24 October 2017.

On 10 November 2016, the unsecured bank borrowing of RMB60,000,000 was taken by the Company, bore a floating interest rate per annum (As at 30 June 2017: 3.915%). The borrowing was due for repayment on 10 August 2017.

On 20 December 2016, the unsecured bank borrowing of RMB30,000,000 was taken by the Company, bore a floating interest rate per annum (As at 30 June 2017: 3.915%). The borrowing was due for repayment on 19 December 2017.

On 9 March 2017, the unsecured bank borrowing of RMB40,000,000 was taken by the Company, bore a floating interest rate per annum (As at 30 June 2017: 3.915%). The borrowing was due for repayment on 9 March 2018.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Company has the plan to construct an additional building in the existing base so as to expand the space for small-scale trial production. The application has been submitted for approval but there is still some uncertainty.

Saved as disclosed above, the Group had no other material capital expenditure plan for the moment.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations and investing activities with internally generated financial resources, proceeds from the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), proceeds from the share placement, grants from the municipal government authorities and commercial loans.

As at 30 June 2017, the Group had cash and cash equivalents of approximately RMB535,893,000.

Being consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank borrowings and loans from government authorities) less cash and cash equivalents. Total capital is calculated as "total equity", as shown in the consolidated balance sheet, plus net debt. As at 30 June 2017 and 31 December 2016, cash and cash equivalents is much more than total balance of bank loans of the Group, therefore, the gearing ratio is not applicable.

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

FOREIGN EXCHANGE EXPOSURE

The Group mainly operates in the domestic market. Except for the Hong Kong dollar proceeds from the placing of shares, the operating results and the financial position of the Group will not be substantially affected by the movement in exchange rates.

EMPLOYEES AND SALARIES

As at 30 June 2017, the Group had a total of 621 employees, as compared to 593 employees as at 30 June 2016. Staff costs including directors' remuneration for the six months ended 30 June 2017 were approximately RMB50,694,000, compared with approximately RMB46,338,000 for the same period in 2016. The salaries and benefits of employees provided by the Group are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory social welfare plans, are also provided to employees by the Group.

USE OF PROCEEDS

On 4 February 2013, the Company completed a placing of 142,000,000 H shares with a par value of RMB0.10 each at a price of HKD1.70. The amount of net proceeds from the placing was approximately HKD233,909,000 (equivalent to approximately RMB185,575,000) (after deducting all applicable costs and expenses, including commissions, legal fees and levies). The net proceeds were applied in the planned projects described in the circular of the Company dated 14 May 2012 and the announcement of the Company dated 16 January 2013.

Particulars of the proceeds from the placing were used as follows:

	Budget *RMB'000*	**Unaudited Total amount that has been utilized as of 30 June 2017** *RMB'000*
R&D projects		
– the clinical study project regarding using ALA for the treatment of cervical intraepithelial neoplasia	20,000	16,571
– the pre-clinical study and clinical study project regarding using ALA for the treatment of brain glioma	10,000	9,035
– the pre-clinical and clinical study project of paclitaxel albumin nanoparticles	20,000	20,000
– the pre-clinical and clinical study project of CD30-MMAE	30,000	30,000
To repay the debts of the Company	20,000	20,000
For the working capital of the Company	85,575	85,575
Total	185,575	181,181

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

As at 30 June 2017, the interests (if any) of the directors of the Company (the "Directors"), supervisors of the Company (the "Supervisors") and chief executive of the Company and their respective associates in the shares or debentures (including interests in shares and/or short positions) of the Company and its associated corporations, (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 (Chapter 571 of the Laws of Hong Kong) ("SFO"); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Name	Position	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in Domestic Shares	Percentage in total share capital
Wang Hai Bo	Director	Domestic Shares	57,886,430 (L)	Beneficial owner	Personal	9.93%	6.27%
Su Yong	Director	Domestic Shares	22,312,860 (L)	Beneficial owner	Personal	3.83%	2.42%
Zhao Da Jun	Director	Domestic Shares	19,260,710 (L)	Beneficial owner	Personal	3.30%	2.09%
Wang Luo Chun	Supervisor	Domestic Shares	1,170,000 (L)	Beneficial owner	Personal	0.20%	0.13%
Zhang Man Juan (retired)	Supervisor	Domestic Shares	870,000 (L)	Beneficial owner	Personal	0.15%	0.09%
Yu Dai Qing	Supervisor	Domestic Shares	870,000 (L)	Beneficial owner	Personal	0.15%	0.09%

Note: 1. The letter "L" stands for long position.

2. The retirement of Ms. Zhang Man Juan as an employee representative Supervisor took effect since the 2016 annual general meeting on 9 June 2017.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 June 2017, the persons other than a Director, Supervisor or chief executive 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, or as recorded in the register maintained under Section 336 of the SFO, or as notified to the Company and the Stock Exchange were as follows (the interests in shares and/or short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, Supervisors and chief executive of the Company):

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	23.94%	22.77%
	H Shares	70,564,000 (L)			20.75%	
Shanghai Pharmaceuticals	Domestic Shares	139,578,560 (L)	Beneficial owner	Corporate	23.94%	22.77%
	H Shares	70,564,000 (L)			20.75%	
China New Enterprise Investment Fund II	Domestic Shares	156,892,912 (L)	Beneficial owner	Corporate	26.91%	17.00%
Yang Zong Meng	Domestic Shares	80,000,000 (L)	Beneficial owner	Personal	13.72%	8.67%
Fudan University	Domestic Shares	30,636,286 (L)	Interest of controlled corporation	Corporate	5.25%	3.32%
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	5.25%	3.32%

Note: The letter “L” stands for long position.

SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2017, the Company had adopted a code of conduct for Directors' securities transactions on terms no less strict than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules. Having made specific enquiries with all Directors, the Directors 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 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") is responsible for reviewing the financial reporting, monitoring risk management, reviewing internal control systems and corporate governance issues and making relevant recommendations to the Board. The Audit Committee comprises two independent non-executive Directors and one non-executive Director who are Mr. Lam Yiu Kin, Mr. Xu Qing and Mr. Shen Bo. Mr. Lam Yiu Kin was appointed as the chairman of the Audit Committee.

The Audit Committee reviews the accounting principles and practices adopted by the Group as well as the internal controls to check whether they comply with the Listing Rules, and reviews issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee reviewed the Group's unaudited interim results for the six months ended 30 June 2017 before proposing to the Board for approval.

Changes of the Information of Directors or Supervisors

At the 2016 annual general meeting on 9 June 2017, Mr. Wang Hai Bo, Mr. Su Yong and Mr. Zhao Da Jun were elected as executive Directors of the sixth session of the Board of the Company; Mr. Shen Bo and Ms. Yu Xiao Yang were elected as non-executive Directors of the sixth session of the Board of the Company; Mr. Zhou Zhong Hui, Mr. Lam Yiu Kin, Mr. Xu Qing and Mr. Yang Chun Bao were elected as independent non-executive Directors of the sixth session of the Board of the Company; Mr. Zhou Xi was elected as shareholder representative Supervisor of the sixth session of the Supervisory Committee of the Company; Mr. Liu Xiao Long and Mr. Huang Jian were elected as independent Supervisors of the sixth session of the Supervisory Committee of the Company. The retirement of Ms. Ke Ying as a non-executive Director, Mr. Guo Yi Cheng as an independent Supervisor and the retirement of Ms. Zhang Man Juan as an employee representative Supervisor shall come into effect on the same day. Mr. Wang Luo Chun and Ms. Yu Dai Qing were elected as employee representative Supervisors on the second employee's representatives meeting on 5 June 2017 held by the Company. For more details, please refer to the announcements issued by the Company on 16 March 2017, 5 June 2017 and 9 June 2017, and the circular issued on 29 March 2017.

During the period under review, the resumes of the newly-appointed Directors and Supervisors and the latest resume of the Director which is required to be disclosed under Rule 13.51B(1) of the Listing Rules are as follows:

Lam Yiu Kin (林耀堅), aged 62, was appointed as an Independent Non-executive Director on 9 October 2013. He is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants of Australia and New Zealand (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Lam has extensive experiences in accounting, auditing and business consulting. He was a member of the Listing Committee of the Stock Exchange from 1997 to 2003, a committee member of HKICPA from 1994 to 2009, a member of the Financial Reporting Advisory Panel of the Stock Exchange from 1997 to 2003 and a partner with PricewaterhouseCoopers Hong Kong from 1993 to 2013. He graduated from Hong Kong Polytechnic University with a higher diploma in June 1975 and he was awarded the honorary fellow of Hong Kong Polytechnic University in November 2002. He has been an independent non-executive director of Royal Century Resources Holdings Limited (formerly known as Kate China Holdings Limited), a company listed on the Shanghai Stock Exchange (Stock Code: 8125) since 30 June 2014 and resigned on 17 September 2015. He has been an independent non-executive director of Mason Group Holdings Limited (formerly known as Mason Financial Holdings Limited), a company listed on the Main Board of the Stock Exchange (Stock Code: 0273) since 1 August 2015 and resigned on 24 May 2017. He has been an independent non-executive director of Vital Mobile Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 6133) since 19 September 2014; an independent non-executive director of Spring Asset Management Limited, which is the manager of Spring Real Estate Investment which units are listed on the Main Board of the Stock Exchange (Stock Code: 1426) since 12 January 2015; an independent non-executive director of Global Digital Creations Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8271) since 27 July 2015; an independent non-executive director of Shougang Concord Century Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 0103) since 1 August 2015; an independent non-executive director of COSCO Shipping Ports Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1199) since 14 August 2015; an independent non-executive director of Nine Dragons Paper (Holdings) Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 2689) since 3 March 2016; and an independent non-executive director of WWPKG Holdings Company Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8069) since 16 December 2016. And he has been appointed as an independent non-executive director of CITIC Telecom International, a company listed on the Main Board of the Stock Exchange (Stock Code: 1883) since 1 June 2017.

Mr. Yang Chun Bao (楊春寶), aged 47, is a senior partner of Dentons Law Firm Shanghai Office. He was a practice lawyer successively in Shanghai Zhongjian Law Firm and Shanghai Haworth&Lexon Law Firm from 1995 to 2015. And he served as an in-house counsel in Southeast Branch of CMST Shanghai from 1992 to 1995. Mr. Yang is off-campus post-graduate supervisor of East China University of Political Science & Law and panel mediator with mediation center of CCPIT and CCOIC. He graduated from Fudan University with L.L.B in July 1992 and received J.M of East China University of Political Science and Law in June 2001 and L.L.M of University of Sydney Technology in May 2001.

Mr. Huang Jian (黃建), aged 47, is a Professor and Doctoral supervisor in Shanghai Jiao Tong University School of Medicine and reviewer of National Natural Science Foundation of China. He used to be a postdoctoral fellow in Institute of Shanghai Biochemistry and Cell Biology Chinese academy of Sciences and Karolinska Institute Stockholm Sweden. He works on Molecular Oncology with more than 30 published papers and several national, provincial and ministerial grants. He graduated from Fudan University with BS in 1992, MS in 1995 and PhD in 1999.

Ms. Yu Daiqing (余岱青), aged 45, is the quality director of the Company. She joined the Company in November 2001, and was successively engaged in quality research and analysis of new drug development, quality control of pharmaceutical manufacturing, establishment of quality management system and daily operation management relating to pharmaceutical manufacturing. She graduated from Shandong University with a bachelor's degree in Chemistry in July 1995 and a master's degree in Analytical Chemistry in July 1998.

OTHER MATTERS

Proposed Issue of A Shares

All resolutions proposed at the extraordinary general meeting of the Company, the class meeting of holders of H Shares of the Company and the class meeting of holders of Domestic Shares of the Company all held on 11 August 2015 were duly passed, which included the resolutions of proposed issue of not more than 27,000,000 A Shares of the Company with a nominal value of RMB0.10 each ("Issue of A Shares"), the proposal on authorization to the Board to deal with matters relating to the Issue of A Shares and the proposed amendments to the articles of association of the Company ("Articles of Association").

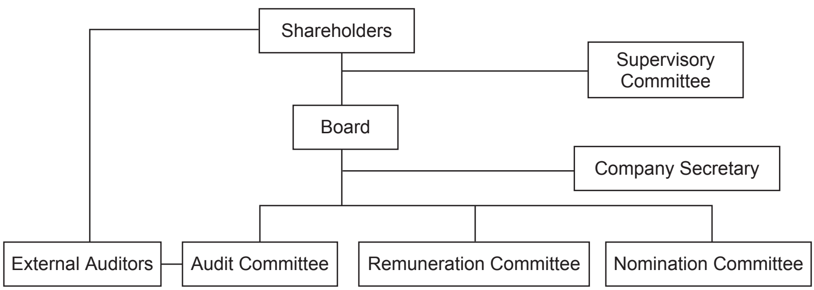
At the annual general meeting of the Company, the class meeting of holders of H Shares of the Company and the class meeting of holders of Domestic Shares of the Company held on 13 May 2016 and 9 June 2017, the resolution of proposed extension of the validity period of the resolution in respect of the proposed Issue of A shares as well as the resolution of proposed extension of the authorization period to the Board to deal with matters relating to the Issue of A Shares were considered and approved. Currently, the validity periods of the relevant resolutions have been both extended by 12 months from the date of the 2016 annual general meeting and the class meetings of holders of H Shares and Domestic Shares at 9 June 2017.

In accordance with the relevant provisions of the Implementation Measures on Pooling National Social Security Funds through Transferring Partial State-owned Shares in the Domestic Securities Market (Cai Qi [2009] No. 94) jointly issued by the Ministry of Finance, the State-owned Assets Supervision and Administration Commission of the State Council, the China Securities Regulatory Commission and the National Social Security Fund ("NSSF") on 19 June 2009, upon the initial public offering of A shares of the Company, the state-owned shareholders of the Company should transfer part of their holding of state-owned shares in an amount equivalent to 10% of the total amount of A shares to be issued to NSSF. As the only state-owned shareholder of the Company confirmed now, Shanghai Fudan Asset Management Co., Ltd. (the wholly owned subsidiary of Fudan University) is applying to the competent authority-in-charge for the transfer of state-owned shares.

The Issue of A Shares will be subject to, among other things, the approvals by the China Securities Regulatory Committee and Shanghai Stock Exchange. Details of the proposed Issue of A Shares are set out in the Company's announcement dated 29 May 2015 and circulars dated 24 June 2015, 13 April 2016 and 29 March 2017.

CORPORATE GOVERNANCE PRACTICE

The Company's corporate governance structure is as follows:



The Company's corporate governance code includes but is not limited to the following documents:

a) Articles of Association;
b) Principles of the Audit Committee;
c) Principles of the Remuneration Committee;
d) Principles of the Nomination Committee;
e) Principles regarding transactions in the Company's securities;
f) Regulations for information disclosure;
g) Regulations for internal control management;
h) Daily management documents of the Company.

The Board has reviewed the documents relating to corporate governance policies adopted by the Company and considered that it had complied with most of the principles and codes set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules. In some aspects, the codes of corporate governance adopted by the Company are even stricter than the provisions as set out in the Code. Details are set out as follows:

Major aspect which is stricter than the provision as set out in the Code:

– Two-thirds of the members of the Audit Committee are independent non-executive Directors.

Major aspects which deviate from the provisions as set out in the Code:

– The positions of the chairman and the general manager rest on the same person. Although the Articles of Association contains specific requirements on the responsibilities of the chairman and the general manager (chief executive), such being the responsibilities of managing the operation of the Board and managing the daily operation of the Company, respectively, the two positions are still taken by one person. Considering that the scale of the Company is relatively small with its businesses mainly focused in the areas of research, production and sales of innovative drugs, and that it has not completely stepped out the venture period for the time being, also for the sake of management efficiency, the Board takes the view that the positions of chairman and chief executive being taken by one person is beneficial for the Company's development at the present stage. Along with the development of the Company, the Board will consider to segregate duties of the chairman and the chief executive.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June 2017 RMB'000	2016 RMB'000
Revenue	6	**272,040**	241,910
Cost of sales	8	**(23,838)**	(19,703)
Gross profit		**248,202**	222,207
Other income	7	**32,999**	33,706
Research and development costs	8	**(44,379)**	(40,441)
Distribution and marketing costs	8	**(158,932)**	(145,848)
Administrative expenses	8	**(22,098)**	(18,076)
Other operating expenses	8	**(250)**	(203)
Operating profit		**55,542**	51,345
Finance costs		**(2,862)**	(2,332)
Profit before income tax		**52,680**	49,013
Income tax expense	9	**(7,133)**	(7,475)
Profit for the period		**45,547**	41,538
Other comprehensive income/(losses):			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		**(180)**	–
Total comprehensive income for the period		**45,367**	41,538
Profit attributable to:			
Shareholders of the Company		**49,572**	45,936
Non-controlling interests		**(4,025)**	(4,398)
		45,547	41,538
Total comprehensive income attributable to:			
Shareholders of the Company		**49,392**	45,936
Non-controlling interests		**(4,025)**	(4,398)
		45,367	41,538
Basic and diluted earnings per share for profit attributable to the shareholders of the Company	11	**RMB0.0537**	RMB0.0498

The notes on pages 28 to 42 form an integral part of this interim consolidated financial information.

INTERIM CONSOLIDATED BALANCE SHEET

	Note	**Unaudited 30 June 2017** *RMB'000*	Audited 31 December 2016 *RMB'000*
Non-current assets			
Leasehold land payments	12	**30,573**	30,968
Property, plant and equipment	12	**308,169**	304,233
Goodwill	12	**8,937**	8,937
Intangible assets	12	**11,551**	9,736
Deferred costs	12	**51,857**	52,503
Deferred income tax assets		**3,386**	4,933
Available-for-sale financial assets		**13,775**	–
Other non-current assets	13	**5,847**	1,394
		434,095	412,704
Current assets			
Inventories		**35,229**	23,663
Trade receivables	14	**143,622**	120,612
Other receivables, deposits and prepayments		**28,582**	45,363
Amounts due from related parties		**9,661**	3,584
Cash and cash equivalents		**535,893**	511,284
Restricted cash		**3,543**	3,543
		756,530	708,049
Total assets		**1,190,625**	1,120,753

INTERIM CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**Unaudited 30 June 2017** *RMB'000*	Audited 31 December 2016 *RMB'000*
Non-current liabilities			
Deferred revenue	15	**15,264**	16,097
Current liabilities			
Trade payables	16	**2,327**	4,398
Other payables and accruals		**117,701**	78,408
Current income tax liabilities		**5,530**	10,642
Amount due to a related party		**3,690**	3,690
Borrowings	17	**160,000**	120,000
Deferred revenue	15	**8,291**	14,464
		297,539	231,602
Total liabilities		**312,803**	247,699
Capital and reserves attributable to shareholders of the Company			
Share capital		**92,300**	92,300
Reserves		**754,496**	751,254
		846,796	843,554
Non-controlling interests		**31,026**	29,500
Total equity		**877,822**	873,054
Total equity and liabilities		**1,190,625**	1,120,753

The notes on pages 28 to 42 form an integral part of this interim consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 30 June 2017	Unaudited Six months ended 30 June 2016
	RMB'000	*RMB'000*
Operating activities		
Cash generated from operations	**32,844**	55,963
Interest paid	**(2,862)**	(2,332)
Interest received	**1,565**	2,757
Income tax paid	**(10,698)**	(12,368)
Net cash generated from operating activities	**20,849**	44,020
Investing activities		
Purchase of property, plant and equipment	**(30,341)**	(15,644)
Additions to deferred costs	**(941)**	(1,848)
Purchase of intangible assets	**(2,225)**	(52)
Purchase of available-for-sale financial assets	**(13,775)**	–
Proceeds from disposal of property, plant and equipment	**320**	115
Investments in financial products	**(777,000)**	(671,000)
Cash received upon maturity of financial products	**782,906**	674,315
Net cash used in investing activities	**(41,056)**	(14,114)
Financing activities		
Capital contribution from non-controlling interests	**4,996**	–
Dividend paid to Company's shareholders	**–**	(2,654)
Proceeds from borrowings	**40,000**	60,000
Repayments of borrowings	**–**	(95,000)
Net cash generated from/(used in) financing activities	**44,996**	(37,654)
Net increase/(decrease) in cash and cash equivalents	**24,789**	(7,748)
Cash and cash equivalents at beginning of the period	**511,284**	445,997
Exchange losses on cash and cash equivalents	**(180)**	–
Cash and cash equivalents at end of the period	**535,893**	438,249

The notes on pages 28 to 42 form an integral part of this interim consolidated financial information.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Attributable to shareholders of the Company						
	Share capital RMB'000	Capital accumulation reserve RMB'000	Statutory common reserve fund RMB'000	Retained earnings RMB'000	Currency translation reserve RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016	92,300	412,293	40,598	187,439	–	33,210	765,840
Profit/(loss) for the period	–	–	–	45,936	–	(4,398)	41,538
Other comprehensive income/(loss)	–	–	–	–	–	–	–
Total comprehensive income/(loss) for the period	–	–	–	45,936	–	(4,398)	41,538
Total transactions with owners, recognised directly in equity							
Dividends relating to 2015	–	–	–	(27,690)	–	–	(27,690)
Total transactions with owners, recognised directly in equity	–	–	–	(27,690)	–	–	(27,690)
Balance at 30 June 2016	92,300	412,293	40,598	205,685	–	28,812	779,688
Balance at 1 January 2017	**92,300**	**412,293**	**46,150**	**292,905**	**(94)**	**29,500**	**873,054**
Profit/(loss) for the period	-	-	-	**49,572**	-	**(4,025)**	**45,547**
Other comprehensive income/(loss):							
Currency translation differences	-	-	-	-	**(180)**	-	**(180)**
Total comprehensive income/(loss) for the period	-	-	-	**49,572**	**(180)**	**(4,025)**	**45,367**
Total transactions with owners, recognised directly in equity							
Capital contribution from non-controlling interests	-	-	-	-	-	**5,551**	**5,551**
Dividends relating to 2016	-	-	-	**(46,150)**	-	-	**(46,150)**
Total transactions with owners, recognised directly in equity	-	-	-	**(46,150)**	-	**5,551**	**(40,599)**
Balance at 30 June 2017	**92,300**	**412,293**	**46,150**	**296,327**	**(274)**	**31,026**	**877,822**

The notes on pages 28 to 42 form an integral part of this interim consolidated financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

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 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 ("Domestic Shares") with a par value of RMB0.10 each.

On 13 August 2002, the trading of the newly issued 198,000,000 ordinary shares ("H Shares") of RMB0.10 each of the Company commenced 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 share capital of the Company was increased to RMB71,000,000.

On 4 February 2013, the Company completed a placing of 142,000,000 H Shares with a par value of RMB0.10 each at a price of HKD1.70, and the share capital of the Company was increased to RMB85,200,000.

On 29 June 2012, the Company adopted a restricted share scheme. Pursuant to the scheme, the Company granted a total of 71,000,000 Domestic Shares as restricted shares to directors, senior management, mid-level management and key research staff of the Group on 24 June 2013 and 21 October 2013 at a price of RMB0.51 with a par value of RMB0.10 each. Upon completion of the grants, the share capital of the Company was increased to RMB92,300,000.

On 16 December 2013, the Company transferred its H Shares listing from GEM to the Main Board of the Stock Exchange.

1. GENERAL INFORMATION (continued)

As at 30 June 2017, the Company had direct interests of 65%, 69.77%, 84.68%, 50.04% and 100% in five subsidiaries, namely Shanghai Ba Dian Medicine Co., Ltd. ("Ba Dian"), Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou Pharmaceutical"), Shanghai Tracing Bio-technology Co., Ltd. ("Tracing"), Derma Clinic Investment Co., Ltd. ("Derma Clinic") and Fernovelty (Hong Kong) Holding Co., Ltd. ("Fernovelty Holding"), respectively.

The Group is principally engaged in the research, development and selling of self-developed bio-pharmaceutical know-how, carrying out contracted research for customers, manufacturing and selling of medical products and providing other medical services in the PRC.

The address of the Company's registered office is 308 Cailun Road, Zhangjiang Hi-Tech Park, Pudong, Shanghai, PRC.

This condensed consolidated interim financial information is presented in Renminbi ("RMB") thousands, unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors of the Company on 4 August 2017.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the consolidated financial statements of the Company for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the consolidated financial statements of the Company for the year ended 31 December 2016, as described in those consolidated financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3. ACCOUNTING POLICIES (continued)

Changes in accounting policies and disclosures:

(i) New amendments of IFRS adopted by the Group

The following new amendments of IFRS are relevant to the Group's operations and are mandatory for the first time for the Group's financial year beginning on 1 January 2017.

IFRS 12 (Amendments)	Amendments to "Disclosure of Interests in Other Entities" on clarifying that the disclosure requirements of the standard are applicable to interests in entities classified as held for sale except for summarised financial information
IAS 12 (Amendments)	Amendments to "Income Taxes" on how to account for deferred tax assets related to debt instruments measured at fair value
IAS 7 (Amendments)	Amendments to "Statement of Cash Flows" regarding additional disclosure on changes in liabilities arising from financing activities

The adoption of the above new amendments of IFRS starting from 1 January 2017 did not have any significant impact on the consolidated interim financial information of the Group for the six months ended 30 June 2017.

(ii) New standards, amendments and interpretations of IFRS not yet adopted

The following new standards, amendments and interpretations of IFRS which are relevant to the Group's operations have been issued but are not yet effective and have not been early adopted by the Group. The Group is still in the process of assessing the impacts on adoption of these new standards, amendments and interpretations and is yet to conclude whether or not it will result in substantial changes to the consolidated financial statements of the Group.

IFRS 2 (Amendments)	Amendments to "Share-based Payment" regarding classification and measurement of share-based payment transactions
IFRS 10 and IAS 28 (Amendments)	Amendments to "Consolidated Financial Statements" and "Investments in Associates and Joint Ventures" regarding sale or contribution of assets between an investor and its associate or joint venture
IFRS 9	"Financial Instruments"
IFRS 15	"Revenue from Contracts with Customers"
IFRS 16	"Leases"
IFRIC 22	"Foreign Currency Transactions and Advance Consideration"
IFRIC 23	"Uncertainty over Income Tax Treatments"

4. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Company's consolidated financial statements for the year ended 31 December 2016.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's consolidated financial statements for the year ended 31 December 2016.

There have been no changes in the risk management functions since year end or in any risk management policies since the year end.

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

6. REVENUE

The Group is principally engaged in the research, development and selling of self-developed bio-pharmaceutical know-how, manufacturing and selling of medical products in the PRC. Revenue recognised during the period are as follows:

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Sales of medical products	**269,960**	241,415
Others	**2,080**	495
	272,040	241,910

7. OTHER INCOME

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Government grants	**17,806**	20,229
Cooperation agreement with Shanghai Pharmaceuticals *(note (a))*	**7,670**	7,334
Gains on investments in financial products *(note (b))*	**5,906**	3,315
Interest income	**1,565**	2,757
Others	**52**	71
	32,999	33,706

(a) On 23 February 2011, the Company and Shanghai Pharmaceuticals Holding Co., Ltd. ("Shanghai Pharmaceuticals") signed an innovative drug research and development strategic cooperation agreement (the "Agreement") in relation to four of the existing drug research projects undertaken by the Group and the Agreement was renewed on 19 March 2013 and 10 May 2017 respectively. According to the Agreement, Shanghai Pharmaceuticals will pay 80% of the ongoing research and development ("R&D") expenses of these projects from 1 January 2011 (inclusive), and the Group and Shanghai Pharmaceuticals will share equally the future benefits generated from the commercialization of these projects. In addition, Shanghai Pharmaceuticals also agreed to pay 80% of the R&D expenses on these research projects prior to 1 January 2011 (the "Pre-2011 Costs") but the payments of the Pre-2011 Costs are subject to the completion of certain milestones between 2011 and six months ended 30 June 2017 as set out in the Agreement.

(b) The gains represented the gains on investments in financial products upon maturity.

8. EXPENSES BY NATURE

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Amortisation of leasehold land payments	**395**	395
Amortisation of deferred costs (included in 'Cost of sales')	**1,901**	231
Amortisation of intangible assets	**765**	608
Provision for impairment of trade receivables	**347**	–
Provision for impairment of inventories	**2**	–
Changes in inventories of finished goods and work in progress	**(7,530)**	(2,075)
Raw materials and consumables used	**13,135**	14,532
Depreciation of property, plant and equipment	**20,421**	17,982
Less: Amounts capitalised in deferred costs	**(314)**	(5,037)
	20,107	12,945
Losses on disposal of property, plant and equipment	**71**	37
Operating lease rentals in respect of land and buildings	**1,884**	651
Outsourced research and development costs	**10,013**	11,575
Employee benefit expenses	**50,694**	46,338
Less: Amounts capitalised in construction in progress	**(534)**	–
Amounts capitalised in deferred costs	**(229)**	(2,385)
	49,931	43,953
Marketing and sales promotion expenses	**103,828**	98,834
Post-marketing study expenses	**22,661**	23,303
Quality inspection expenses	**4,217**	3,844
Clinical trial expenses	**4,107**	202
Others	**23,663**	15,236
Total cost of sales, research and development costs, distribution and marketing costs, administrative expenses and other operating expenses	**249,497**	224,271

9. INCOME TAX EXPENSE

Effective from 1 January 2008 and except for Fernovelty Holding, the Company and its subsidiaries are required to determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") as approved by the National People's Congress on 16 March 2007. The Company and Tracing were recognised as high-tech enterprises, and their applicable tax rates are 15% for the six months ended 30 June 2017 (Six months ended 30 June 2016: 15% and 25% respectively as Tracing's recognition was only obtained by the year end of 2016). The applicable tax rates of the other Mainland China subsidiaries are 25% for the six months ended 30 June 2017 (Six months ended 30 June 2016: 25%).

Fernovelty Holding was incorporated in Hong Kong in October 2016 as a subsidiary of the Group and is subject to Hong Kong profits tax at the rate of 16.5% (2016: 16.5%). Since it did not have estimated assessable profit for the six months ended 30 June 2017, Hong Kong profits tax has not been provided.

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Current income tax	**5,586**	6,624
Deferred income tax	**1,547**	851
	7,133	7,475

10. DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2017 (Six months ended 30 June 2016: Nil).

11. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited	
	Six months ended 30 June	
	2017	2016
Profit attributable to shareholders of the Company *(RMB'000)*	**49,572**	45,936
Weighted average number of ordinary shares in issue *('000)*	**923,000**	923,000
Basic earnings per share *(RMB)*	**0.0537**	0.0498

There is no difference between the basic and diluted earnings per share for the six months ended 30 June 2017 and 30 June 2016 as there were no dilutive potential ordinary shares during the periods then ended.

12. CAPITAL EXPENDITURE

	Unaudited				
	Leasehold land payments *RMB'000*	Property, plant and equipment *RMB'000*	Goodwill *RMB'000*	Intangible assets *RMB'000*	Deferred costs *RMB'000*
Cost					
At 1 January 2017	**37,356**	**447,551**	**8,937**	**15,116**	**62,214**
Additions	**–**	**24,748**	**–**	**2,580**	**1,255**
Disposals	**–**	**(13,417)**	**–**	**–**	**–**
At 30 June 2017	**37,356**	**458,882**	**8,937**	**17,696**	**63,469**
Accumulated amortisation/ depreciation					
At 1 January 2017	**6,388**	**143,318**	**–**	**5,380**	**9,711**
Charge for the period	**395**	**20,421**	**–**	**765**	**1,901**
Disposals	**–**	**(13,026)**	**–**	**–**	**–**
At 30 June 2017	**6,783**	**150,713**	**–**	**6,145**	**11,612**
Net book value					
At 30 June 2017	**30,573**	**308,169**	**8,937**	**11,551**	**51,857**

12. CAPITAL EXPENDITURE (continued)

	Unaudited				
	Leasehold land payments *RMB'000*	Property, plant and equipment *RMB'000*	Goodwill *RMB'000*	Intangible assets *RMB'000*	Deferred costs *RMB'000*
Cost					
At 1 January 2016	37,356	404,057	8,937	14,567	45,365
Additions	–	11,597	–	52	6,885
Disposals	–	(270)	–	–	–
At 30 June 2016	37,356	415,384	8,937	14,619	52,250
Accumulated amortisation/ depreciation					
At 1 January 2016	5,596	107,056	–	4,194	8,972
Charge for the period	395	17,982	–	608	231
Disposals	–	(118)	–	–	–
At 30 June 2016	5,991	124,920	–	4,802	9,203
Net book value					
At 30 June 2016	31,365	290,464	8,937	9,817	43,047

As at 30 June 2017 and 30 June 2016, the management did not identify any impairment indication of goodwill.

13. OTHER NON-CURRENT ASSETS

	Unaudited 30 June 2017 ***RMB'000***	Audited 31 December 2016 *RMB'000*
Equipment prepayments	**5,847**	1,394

14. TRADE RECEIVABLES

	Unaudited 30 June 2017 ***RMB'000***	Audited 31 December 2016 *RMB'000*
Accounts receivable *(note (a))*	**104,463**	77,419
Less: Provision for impairment	**(468)**	(121)
Accounts receivable – net	**103,995**	77,298
Notes receivable *(note (b))*	**39,627**	43,314
	143,622	120,612

As at 30 June 2017 and 31 December 2016, the fair value of the trade receivables approximated their carrying amounts, which are all denominated in RMB.

(a) Accounts receivable are arisen from sales of products, with no interest charged. The credit period granted to customers is between 1 to 4 months. The ageing analysis of accounts receivable based on invoice date, before provision for impairment as at 30 June 2017 and 31 December 2016, are as follows:

	Unaudited 30 June 2017 ***RMB'000***	Audited 31 December 2016 *RMB'000*
Within credit terms	**94,496**	71,587
Past due within 30 days	**6,432**	4,853
Past due over 30 days and within 60 days	**943**	763
Past due over 60 days and within 90 days	**656**	23
Past due over 90 days and within one year	**1,858**	116
Past due over one year	**78**	77
	104,463	77,419

(b) Notes receivable are arisen from sales of products, with no interest charged. They are all bank acceptance notes with maturities less than six months.

15. DEFERRED REVENUE

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Government grants	**21,310**	28,316
Technology transfer	**2,245**	2,245
	23,555	30,561
Less: Amounts to be realized within one year	**(8,291)**	(14,464)
	15,264	16,097

16. TRADE PAYABLES

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Accounts payable *(note (a))*	**2,327**	4,398

As at 30 June 2017 and 31 December 2016, all trade payables of the Group were non-interest bearing, and their fair value approximated their carrying amounts due to their short maturities.

All the Group's trade payables are denominated in RMB.

(a) As at 30 June 2017 and 31 December 2016, the ageing analysis of accounts payable based on invoice date are as follows:

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Within 30 days	**1,861**	2,681
31 days to 60 days	**73**	839
61 days to 90 days	**27**	304
Over 90 days but less than one year	**19**	225
Over one year	**347**	349
	2,327	4,398

17. BORROWINGS

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Current		
Short-term bank borrowings, unsecured *(note (a))*	**130,000**	90,000
Short-term bank borrowing, secured *(note (b))*	**30,000**	30,000
	160,000	120,000

(a) As at 30 June 2017, an unsecured short-term bank borrowing of RMB60,000,000 was taken by the Company, bore a floating interest rate at 3.915% per annum and was due for repayment on 10 August 2017.

As at 30 June 2017, an unsecured short-term bank borrowing of RMB30,000,000 was taken by the Company, bore a floating interest rate at 3.915% per annum and was due for repayment on 19 December 2017.

As at 30 June 2017, an unsecured short-term bank borrowing of RMB40,000,000 was taken by the Company, bore a floating interest rate at 3.915% per annum and was due for repayment on 9 March 2018.

(b) As at 30 June 2017, a secured short-term bank borrowing of RMB30,000,000 was taken by the Company and bore a fixed interest rate at 4.14% per annum. The borrowing was mortgaged by the Company's 7 intellectual properties and was due for repayment on 24 October 2017. These intellectual properties do not have any carrying value in the Group's financial statements.

Interest expense on borrowings for the six months ended 30 June 2017 was RMB2,862,000 (Six months ended 30 June 2016: RMB2,332,000).

As at 30 June 2017 and 31 December 2016, the Group's borrowings were repayable as follows:

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Within 1 year	**160,000**	120,000

18. RELATED PARTY TRANSACTIONS

(i) Transactions

During the six months ended 30 June 2017 and 30 June 2016, significant related party transactions were those carried out with a substantial shareholder, Shanghai Pharmaceuticals, and its subsidiary in the ordinary course of business of the Group as follows:

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
With Shanghai Pharmaceutical Co., Ltd. (formerly known as Shanghai Pharmaceutical Distribution Co., Ltd.):		
Sales of medical products	**5,804**	6,742
With Shanghai Pharmaceuticals:		
Cash received under the Cooperation Agreement *(Note 7(a))*	**470**	2,000

(ii) Balances

	Unaudited	Audited
	30 June	31 December
	2017	2016
	RMB'000	RMB'000
Amounts due from related parties:		
Shanghai Pharmaceuticals	**8,581**	1,381
Shanghai Pharmaceutical Co., Ltd. (formerly known as Shanghai Pharmaceutical Distribution Co., Ltd.)	**1,080**	2,203
	9,661	3,584
Amount due to a related party:		
Shanghai Pharmaceuticals	**3,690**	3,690

19. SEGMENT INFORMATION

The single operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors that make strategic decisions.

In recent years, the Group has been focusing on the commercialization of its own drugs after research and development. The outcomes of the Group's research and development activities will be given preference to be used by the Group for its own commercialization. As a result of such strategic shift in business focus, the revenue generated from technology transfer is not significant. Accordingly, the management considers that the Group only operates a single business segment and hence no segment information is presented.

The Company and all its subsidiaries except Fernovelty Holding operate in Mainland China and the Group's revenue is principally derived in Mainland China.

By Order of the Board
Wang Hai Bo
Chairman

As at the date of this report, the Board comprises:

Mr. Wang Hai Bo *(Executive Director)*
Mr. Su Yong *(Executive Director)*
Mr. Zhao Da Jun *(Executive Director)*
Mr. Shen Bo *(Non-executive Director)*
Ms. Yu Xiao Yang *(Non-executive Director)*
Mr. Zhou Zhong Hui *(Independent Non-executive Director)*
Mr. Lam Yiu Kin *(Independent Non-executive Director)*
Mr. Xu Qing *(Independent Non-executive Director)*
Mr. Yang Chun Bao *(Independent Non-executive Director)*

Shanghai, the PRC

4 August 2017