



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)

**Interim Results Announcement
For the six months ended 30 June 2003**

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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 Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. 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 Directors are pleased to present the interim results of the Company together with its subsidiaries (collectively the “Group”) for the six months ended 30 June 2003.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Note</i>	Unaudited three months		Unaudited six months	
		ended 30 June 2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	ended 30 June 2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Revenues					
Turnover	3	3,626	7,459	4,978	11,290
Other revenues		<u>746</u>	<u>124</u>	<u>1,456</u>	<u>145</u>
Total revenues		4,372	7,583	6,434	11,435
Costs and expenses					
Cost of sales		(3,117)	(3,736)	(4,098)	(5,771)
Research and development		(3,751)	(2,707)	(5,246)	(4,792)
Distribution costs		(586)	(415)	(1,063)	(879)
Administrative expenses		(2,758)	(1,160)	(4,545)	(2,423)
Other operating expenses		<u>(45)</u>	<u>(2)</u>	<u>(79)</u>	<u>(5)</u>
Total expenses		(10,257)	(8,020)	(15,031)	(13,870)
Other income		<u>479</u>	<u>1,948</u>	<u>1,621</u>	<u>3,503</u>
Operating (loss)/profit		(5,406)	1,511	(6,976)	1,068
Finance cost		—	—	—	—
Share of results of associate before taxation		<u>—</u>	<u>—</u>	<u>(232)</u>	<u>—</u>
(Loss)/profit before taxation	4	(5,406)	1,511	(7,208)	1,068
Taxation (charge)/credit	5	<u>146</u>	<u>(290)</u>	<u>72</u>	<u>(184)</u>
(Loss)/profit after taxation		(5,260)	1,221	(7,136)	884
Minority interests		<u>235</u>	<u>189</u>	<u>305</u>	<u>198</u>
(Loss)/profit attributable to shareholders		<u>(5,025)</u>	<u>1,410</u>	<u>(6,831)</u>	<u>1,082</u>
(Loss)/earnings per share	7	<u>(0.0071)</u>	<u>0.0026</u>	<u>(0.0096)</u>	<u>0.0020</u>

CONSOLIDATED BALANCE SHEETS

		Unaudited	Audited
		30 June	31 December
		2003	2002
	<i>Note</i>	RMB'000	RMB'000
Non-current assets			
Leasehold land payments	8	5,181	5,235
Fixed assets	8	42,447	37,760
Technical know-how	8	11,925	4,766
Deferred development costs	8	15,596	11,228
Investment in an associate		4,328	4,560
Available-for-sale investments		<u>757</u>	<u>828</u>
		80,234	64,377
Current assets			
Deferred taxation assets		497	425
Inventories		1,793	1,534
Trade receivables	9	4,404	2,169
Other receivables, deposits and prepayments		1,856	483
Amount due from related companies		1,000	2,064
Amount due from a shareholder		250	250
Amount due from an associate		1,343	1,343
Available-for-sale investments		3,887	5,305
Deposits in other financial institutions		2,287	598
Cash and bank balances		<u>108,355</u>	<u>137,841</u>
		125,672	152,012
Current liabilities			
Trade payables	10	1,982	1,631
Other payables and accruals		5,119	12,144
Deferred revenue		3,333	4,908
Current taxation liabilities		59	407
Loans from municipal government authorities	11	2,050	2,050
Amount due to a shareholder		<u>1,000</u>	<u>1,000</u>
		13,543	22,140
Net current assets		<u>112,129</u>	<u>129,872</u>

	Unaudited	Audited
	30 June	31 December
	2003	2002
<i>Note</i>	RMB'000	RMB'000
Total assets less current liabilities	192,363	194,249
Minority interests	<u>6,297</u>	<u>1,352</u>
Net assets	<u>186,066</u>	<u>192,897</u>
Financed by:		
Share capital	71,000	71,000
Reserves	<u>115,066</u>	<u>121,897</u>
Shareholders' funds	<u>186,066</u>	<u>192,897</u>

CONDENSED CONSOLIDATED CASH FLOW

	Unaudited Six months ended 30 June 2003 RMB'000	Unaudited Six months ended 30 June 2002 RMB'000
Net cash used in operating activities	(7,655)	(3,515)
Net cash used in investing activities	<u>(20,142)</u>	<u>(11,474)</u>
Decrease in cash and cash equivalents	<u>(27,797)</u>	<u>(14,989)</u>
Movement in cash and cash equivalents		
At beginning of the period	138,439	39,270
Decrease	<u>(27,797)</u>	<u>(14,989)</u>
At end of the period	<u>110,642</u>	<u>24,281</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	108,355	15,723
Deposits in other financial institutions	<u>2,287</u>	<u>8,558</u>
	<u>110,642</u>	<u>24,281</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>RMB'000</i>	Capital accumulation reserve <i>RMB'000</i>	Unaudited		Retained earnings/ (Accumulated loss) <i>RMB'000</i>	Total <i>RMB'000</i>
			Statutory common reserve fund <i>RMB'000</i>	Statutory common welfare fund <i>RMB'000</i>		
Balance at 1 January, 2002	53,000	5	1,675	1,103	11,248	67,031
Dividend relating to 2001	—	—	—	—	(7,950)	(7,950)
Profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,082</u>	<u>1,082</u>
Balance at 30 June, 2002	<u>53,000</u>	<u>5</u>	<u>1,675</u>	<u>1,103</u>	<u>4,380</u>	<u>60,163</u>
Balance at 1 January, 2003	71,000	115,014	1,709	1,120	4,054	192,897
Loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(6,831)</u>	<u>(6,831)</u>
Balance at 30 June, 2003	<u>71,000</u>	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(2,777)</u>	<u>186,066</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Background

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

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

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

On 13 August, 2002, the Company issued 180,000,000 ordinary shares (“H” shares) of Rmb0.1 each in a placing and the trading of H shares on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM”).

As at the date of this report, the Company has direct interests of 62.5% and 65% in two subsidiaries, namely Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. and Shanghai Ba Dian Medicine Co., Ltd., respectively.

The Company and its subsidiaries (the “Group”) are principally engaged in research, development and selling of self-developed bio-pharmaceutical know-how, carrying out contracted research for customers, and manufacturing and selling of diagnostic reagent and the provision of related ancillary services in the PRC.

2. Accounting policies and basis of preparation

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

- (a) The accounts have been prepared in accordance with International Accounting Standards and Interpretations Committee (collectively as “IAS”). They have been prepared under the historical cost convention except that , the available-for-sale investments are shown at fair value.
- (b) The accounts have been prepared in accordance with IAS 34 “Interim Financial Reporting” and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.
- (c) The accounting policies and basis of preparation used in the preparation of the accounts are consistent with those used in the preparation of the Company’s financial information included in the accountants’ report set out in the Prospectus.

(d) The accounts have been prepared on a consolidated basis which include the financial statements of the Company and its subsidiaries. A subsidiary is an entity in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains on transactions eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

3. Turnover and segmental information

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

	Unaudited three months ended 30 June 2003			Unaudited three months ended 30 June 2002		
	Research and development activities RMB'000	Sales of diagnostic reagent and the provision of related ancillary services RMB'000	Total RMB'000	Research and development activities RMB'000	Sales of diagnostic reagent and the provision of related ancillary services RMB'000	Total RMB'000
Turnover	<u>—</u>	<u>3,626</u>	<u>3,626</u>	<u>5,000</u>	<u>2,459</u>	<u>7,459</u>
Segment (loss)/profit	(3,309)	57	(3,252)	2,235	145	2,380
Unallocated income			605			242
Unallocated costs			(2,759)			(1,111)
(Loss)/profit before taxation			(5,406)			1,511
Taxation (charge)/credit			<u>146</u>			<u>(290)</u>
(Loss)/profit after taxation			(5,260)			1,221
Minority interests			<u>235</u>			<u>189</u>
(Loss)/profit attributable to shareholders			<u>(5,025)</u>			<u>1,410</u>

	Unaudited six months ended 30 June 2003			Unaudited six months ended 30 June 2002		
	Research and development activities RMB'000	Sales of diagnostic reagent and the provision of related ancillary services RMB'000	Total RMB'000	Research and development activities RMB'000	Sales of diagnostic reagent and the provision of related ancillary services RMB'000	Total RMB'000
Turnover	<u>—</u>	<u>4,978</u>	<u>4,978</u>	<u>7,000</u>	<u>4,290</u>	<u>11,290</u>
Segment (loss)/profit	(4,097)	130	(3,967)	2,515	344	4,802
Unallocated income			1,385			536
Unallocated costs			(4,626)			(2,327)
(Loss)/profit before taxation			(7,208)			1,068
Taxation (charge)/credit			<u>72</u>			<u>(184)</u>
(Loss)/profit after taxation			(7,136)			884
Minority interests			<u>305</u>			<u>198</u>
(Loss)/profit attributable to shareholders			<u>(6,831)</u>			<u>1,082</u>

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

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

4. (Loss)/profit before taxation

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

	Unaudited three months		Unaudited six months	
	ended 30 June		ended 30 June	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Amortisation of government grants and other non-refundable grants	(680)	(1,829)	(1,460)	(3,112)
Amortisation of leasehold land payments	27	5	54	10
Amortisation of deferred development costs	139	139	278	278
Amortisation of technical know-how	313	70	508	141
Depreciation of fixed assets	834	331	1,565	697
Less: amount capitalized in deferred development costs	(183)	(35)	(559)	(70)
	651	296	1,006	627
Operating lease rentals in respect of land and buildings	—	95	—	190
Research and development expenditure (note)	3,751	2,707	5,246	4,792
Staff costs (note)				
Housing subsidy	328	130	642	236
Retirement benefit costs	200	171	368	310
Social security costs	130	90	287	158
Wages and salaries	1,541	1,833	3,773	3,867
	2,199	2,224	5,070	4,571
Unrealised (profit)/loss on available-for-sale investments	(99)	—	(267)	55
Realised loss/(profit) on disposal of available-for-sale investments	124	(173)	203	(446)
Provision for/(reversal of provision for) bad debts	53	—	(5)	7

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

5. Taxation credit/(charge)

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Current tax	—	(16)	—	(23)
Deferred tax credit/(charge)	<u>146</u>	<u>(274)</u>	<u>72</u>	<u>(161)</u>
	<u>146</u>	<u>(290)</u>	<u>72</u>	<u>(184)</u>

The Company is subject to the income tax of the PRC and the normal income tax rate applicable is 33%. As the Company is recognised as a New and High Technology Enterprise, it is entitled to a reduced Income Tax rate of 15%. Accordingly, the Company is subject to Income Tax at a rate of 15%.

The subsidiaries are subject to the Income Tax Law of the PRC and the income tax rate applicable is 33%. No provision for income tax has been made for the subsidiaries for the three months and six months ended 30 June 2003 respectively and the corresponding periods as it has no taxable income during those periods.

6. Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2003(2002:Nil).

7. (Loss)/earnings per share

The calculation of the (loss)/earnings per share for the three months ended 30 June 2003 and 30 June 2002 were based on the unaudited loss of approximately RMB5,025,000 (three months ended 30 June 2002: profit attributable to shareholders of approximately RMB1,410,000) and the weighted average of 710,000,000 shares (three months ended 30 June 2002: 530,000,000 shares) in issue during the three months ended 30 June 2003.

The calculation of the (loss)/earnings per share for the six months ended 30 June 2003 and 30 June 2002 were based on the unaudited loss of approximately RMB6,831,000 (six months ended 30 June 2002: profit attributable to shareholders of approximately RMB1,080,000) and the weighted average of 710,000,000 shares (six months ended 30 June 2002: 530,000,000 shares) in issue during the six months ended 30 June 2003.

Diluted (loss)/earnings per share have not been calculated for the three months and six months ended 30 June 2003 respectively and the corresponding periods as there were no dilutive potential ordinary shares during those periods.

8. Capital expenditure

	Leasehold land payments <i>RMB'000</i>	Unaudited		Deferred Development Costs <i>RMB'000</i>
		Fixed assets <i>RMB'000</i>	Technical Know-how <i>RMB'000</i>	
Cost				
At 1 January, 2003	5,289	41,988	6,074	13,174
Additions	—	6,305	7,667	4,646
Disposal	—	(76)	—	—
At 30 June, 2003	<u>5,289</u>	<u>48,217</u>	<u>13,741</u>	<u>17,820</u>
Accumulated amortisation				
At 1 January, 2003	54	4,228	1,308	1,946
Charge for the period	54	1,565	508	278
Disposal	—	(23)	—	—
At 30 June, 2003	<u>108</u>	<u>5,770</u>	<u>1,816</u>	<u>2,224</u>
Net book value				
At 30 June, 2003	<u>5,181</u>	<u>42,447</u>	<u>11,925</u>	<u>15,596</u>

9. Trade receivables

Details of the aging analysis are as follows:

	Unaudited 30 June 2003 <i>RMB'000</i>	Audited 31 December 2002 <i>RMB'000</i>
Current to 30 days	2,178	639
31 days to 60 days	561	468
61 days to 90 days	1,028	324
Over 90 days but less than one year	761	1,187
Over one year	<u>1,855</u>	<u>1,535</u>
Provision	<u>6,383</u> <u>(1,979)</u>	<u>4,153</u> <u>(1,984)</u>
	<u>4,404</u>	<u>2,169</u>

Customers are generally granted credit terms of 90 days.

10. Trade payables

Details of the aging analysis are as follows:

	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Current to 30 days	1,838	1,255
31 days to 60 days	46	190
61 days to 90 days	23	42
Over 90 days but less than one year	14	18
Over one year	<u>61</u>	<u>126</u>
	<u>1,982</u>	<u>1,631</u>

11. Loans from municipal government authorities

The loans from municipal government authorities are repayable as follows:

	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Within one year	2,050	2,050
In the second year	<u>—</u>	<u>—</u>
	<u>2,050</u>	<u>2,050</u>

The loans represent government assistance from several PRC municipal government authorities and are unsecured and interest free. All of the loans are repayable on various dates to 31 December 2003.

12. Related party transactions

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

The Group had no significant transactions with related companies during the six-month period ended 30 June 2003:

	Unaudited		Unaudited	
	Six months ended		Six months ended	
	30 June		30 June	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Rental expense paid to Shanghai Zhangjiang Hi-Tech Service Centre Co., Ltd., a fellow subsidiary of a major shareholder of the Company, and Shanghai Zhangjiang Hi-Tech Park Development Corp., the holding company of a major shareholder of the Company	—	49	—	103
Rebate to Shanghai Pharmaceutical Co., Ltd., a major shareholder of the Company	—	600	—	2,100

By Order of the Board
Wang Hai Bo
Chairman

Hong Kong, 8 August, 2003

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review for the six months ended 30 June 2003

For the six months ended 30 June 2003, turnover of the Group plummeted to approximately RMB5 million, compared to RMB 11.3million for the corresponding period in 2002.

The Group's turnover of the first six months of 2003 was derived from the sales of diagnostic reagent, compared to the total turnover of the corresponding period last year within which RMB7million (or 62% of total turnover) was derived from technology transfer and the rest RMB4.3million (or 38% of total turnover) was derived from the sales of diagnostic reagent and the provision of relevant service packages.

As compared with the same period in 2002, the Group's turnover dropped during the first half of 2003 as there was no technology transfer throughout two quarters. This was due to a change in the Group's operation and R&D strategies upon the listing of the Company on GEM. The Group used to sell those projects that are expected to face huge competition upon commercial launch or those "me-too" drugs research projects in return for cash and funding for other R&D programs. After the Company's successful listing on GEM in August 2002, the Group has more financial resources to be devoted to R&D on new drugs. The Directors believe that it would be more profitable to the Group to transfer technology of its R&D projects at a later stage than to seek upfront return. In addition, the long-term strategy of the Group is to focus on the R&D and commercialisation of its self-developed bio-pharmaceutical drugs. Therefore, while technology transfer would remain as one of the Group's alternatives to realise short-term profits and maintain cash flow position, the Group's focus is more on R&D project commercialization to seek long-term business success.

The sales of medical and diagnostic reagents ascended by 16% in contrast with the corresponding period in 2002, due to the enhanced marketing efforts of the Group's sales agents.

The total expenses of the Group for the six months ended 30 June 2003 were approximately RMB15 million, compared with RMB13.9 million for the corresponding period in 2002. The rise was mainly attributed to the allocation of more resources to research and development activities than the previous corresponding period.

The Group recorded a loss attributable to shareholders of approximately RMB6.8 million for the six months ended 30 June 2003, compared with a profit attributable to shareholders of approximately RMB1.1 million for the corresponding period in 2002.

OPERATION REVIEW

Research & Development

The major R&D projects of the Group continued to thrive in accordance with our annual plans. Among these, pre-clinical research has been completed for the recombinant human interleukin-1 receptor antagonist (重組人白細胞介素1受體拮抗劑) (rhIL-1Ra) project which aims at treatment of intractable rheumatic arthritis. Following the rampage of the atypical pneumonia (SARS), the Group has made timely adjustments to its R&D strategies based on the disease development pattern of SARS and the crucial actions of inflammatory media IL-1Ra in the Acute Respiratory Dyspnea Syndrome (ARDS), Multiple Organ Dysfunction Syndrome (MODS) and process of shock, and immediately proceeded with the “Emergency reporting on the reduction of SARS mortality rate of IL-1Ra” project. On 29 May this year, the Group formally filed with the State Food and Drug Administration (SFDA) of the PRC for the clinical testing of the Group’s IL-1Ra on the two indications of the reduction of the mortality rate of the Acute Respiratory Dyspnea Syndrome (ARDS) and of the treatment of intractable rheumatic arthritis. Moreover, the IL-1Ra project has obtained a grant of RMB500,000 from the Shanghai Science and Technology Committee.

As for other R&D projects, such as 5-氨基酮戊酸鹽 (ALA), a new photodynamic therapy drug, application to the SFDA for clinical testing has been completed. Clinical application for the project has been made in the forms of drug base and preparations respectively. The recombinant human soluble TNFR75 fusion protein (Etanercept) project for the treatment of arthritis, the recombinant human parathyroid hormone derivatives (rhPTH) project for the treatment of osteoporosis, the Microparan project for the treatment of acute coronary artery diseases; the photodynamic therapy drug Hemporfin; data compilation is underway for the Chinese medicine light sugar project and applications for clinical testing will be made in the near future one after another.

Product Sales

On 30 May this year, the Group granted to Jiangsu Xiansheng Pharmaceutical Co., Ltd. (“Jiangsu Xiansheng”) the general distribution right for the Down’s Syndrome antenatal screening system product of the Company in Mainland

China (other than Sichuan, Chongqing, Yunan and Guizhou) for a term of 10 years. Pursuant to the agreement, upon the obtaining of the formal production permit of the product from the SFDA, Jiangsu Xiansheng has undertaken to sell 6 million units of the product in the first three years of sales. The Group believes that it is expected to bring a stable stream of income to the Group in future.

Strategic alliance

On 4 June 2003, Shanghai Ba Dian Medicine Co., Ltd. (上海靶點藥物有限公司) was formally incorporated with a registered capital of RMB15 million. The company is a joint venture established by the Company together with the Shanghai Life Science Research Institute of the Academy of Science (中科院上海生命科學研究院), Shanghai Organic Chemistry Research Institute of the Academy of Science (中科院上海有機化學研究所), with the Company holding 65% equity interest. The Directors believe that following its establishment, the Company will further enhance the R&D capabilities of the Group, and effectively push forward the overall progress of the Group in the research and commercialization of new drugs.

On 18 June, the Group entered into a Letter of Intent for cooperation with Eiken Chemical Co., Ltd. (“Eiken”), a bio-chemical enterprise based in Tokyo, Japan, pursuant to which the Company will be granted, subject to formal agreement, the right to use the patented new genetic magnification method (LAMP) technique developed by Eiken for the development of both clinical and non-clinical bio-chemical diagnostic reagents on the LAMP platform, and to produce and sell such products in the PRC (other than Hong Kong, Macau and Taiwan). The Company believes that this will certainly speed up its development strengths in the medical diagnosis sector, thereby increasing the Company’s market share in clinical reagents. In addition, both parties are negotiating for the agreement of the Group’s agency on the sales of the genetic inspection reagents and system products of Eiken.

Patents

The Group always places great importance on the protection of intellectual property rights. Of the 84 applications for external appearance patent made at the end of last year, 47 applications have been approved, and the Group has further applied for 4 new patents in the first half of 2003.

PROSPECTS

The Company has successfully completed the application for the clinical testing of the recombinant human interleukin-1 receptor antagonist (重組人白細胞介素1受體拮抗劑) (rhIL-1Ra) project and the 5-氨基酮戊酸鹽 (ALA), a new photodynamic therapy drug project. A number of projects will continue to await completion of application for clinical testing in the second half of the year. These include (1) the recombinant human soluble TNFR75 fusion protein for the treatment of arthritis; (2) the parathyroid hormone derivatives for the treatment of osteoporosis; (3) Hemporfin for the treatment of abnormal formation of blood vessels; (4) the light sugar project for treatment of diabetes; and (5) Microparan for the treatment of acute coronary artery diseases. The Directors expect to obtain the clinical permits one after another in the year to come.

In order to develop the Group's business soundly and steadily, the Group has invested more capital in R&D in the first half of this year, while at the same time has changed its development strategies to actively conducting the commercialization of its products for greater cost-effectiveness.

The Company intends to cooperate with the Scientific Research Institute of the National Birth Planning Committee to promote the Down's Syndrome antenatal screening system. At the same time, the Company will also actively identify companies with good development potential to conduct research jointly, and to commercialize these research projects.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The Group has made smooth progress on various R&D projects. What is worth mentioning is that some R&D projects, namely 5-氨基酮戊酸鹽 (ALA), a photodynamic therapy drug project and the recombinant human interleukin-1 receptor antagonist (重組人白細胞介素1受體拮抗劑) (rhIL-1Ra) project, have exceeded the original schedule and applied to the SFDA for clinical tests.

However, delays have been experienced in some special projects due to the adjustments made to the R&D focus of those projects and change made by the SFDA on the procedures for clinical applications. The original plans and the actual progress are as follows:

Project name and description	Anticipated progress of R&D as at 30 June 2003 set out in the prospectus	Actual progress as at 30 June 2003
Recombinant human lymphotoxin - α derivatives(rhLT) for the treatment of lung cancer	Conduct stage II clinical trial	The Company is conducting stage I clinical trial and the tests are anticipated to be completed by the end of 2003
Recombinant human parathyroid hormone derivatives (rhPTH) for the treatment of osteoporosis	Conduct stage I clinical trial	The Company has completed all the pre-clinical steps, and will apply to the SFDA for clinical tests in 2003
Construction of GMP factory	Obtain land use right and factory design	The Company has negotiated with the local government for the land use right. The land use right transfer agreement is anticipated to be reached by the end of 2003
Hemporfin, photodynamic therapy drug	Conduct stage I clinical trial	The Company has completed the pre-clinical steps. It is anticipated that application for clinical tests will be made to the SFDA by the end of 2003

Project name and description	Anticipated progress of R&D as at 30 June 2003 set out in the prospectus	Actual progress as at 30 June 2003
Deuteroporphyrin, a photodynamic therapy drug	File application for clinical trial	Most of the pre-clinical steps have been completed
5-氨基酮戊酸鹽 (ALA), Nil a photodynamic therapy drug	Nil	The Company has completed the pre-clinical steps ahead of original schedule. An application for clinical tests has been made to the SFDA.
Human leukocyte antigen (HLA) genotyping chips	Complete purchase of production and quality control equipment	Part of the equipment has been purchased. According to the announcement on 18 March 2003, the Company reallocated part of proceeds originally planned for R&D and commercialization of HLA genotyping chips to finance the establishment and development of Shanghai Ba Dian (a subsidiary of the Company). And the proceeds originally to be consumed from the latest

Project name and description	Anticipated progress of R&D as at 30 June 2003 set out in the prospectus	Actual progress as at 30 June 2003
Lymphotoxin mutants	Screening process completed	practicable date to 31 December 2002 as stated in the Company's Prospectus dated 31 July 2002 for the purchase of production facilities of HLA genotyping chips are now reallocated to the purchase of production facilities and factory renovation for the Down's Syndrome antenatal screening system.
New type of erythropoietin	Initial research completed	Research suspended due to other considerations of the Company. The project was replaced by the Recombinant human interleukin-1 receptor antagonist (rhIL-1Ra) project
α -1, 4 glucosidase inhibitor	Initial research completed	Fulfilled
Recombinant human interleukin-1 receptor antagonist (rhIL-1Ra)	Nil	The Company has completed the pre-clinical steps ahead of original schedule. An application for clinical tests has been made to the SFDA.

DIVIDEND

After due consideration of the future working capital and development needs of the Group, the Directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2003.

SIGNIFICANT INVESTMENTS

As at 30 June 2003, the Company invested RMB 3,887,000 in listed shares and funds, compared with RMB 5,305,000 as at 31 December 2002. Such decrease was principally due to the redemption of shares and funds investment by the Company.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Shanghai Ba Dian Medicine Co., Ltd. was incorporated on 4 June 2003, with the Company investing RMB 9,750,000 in exchange of 65% of its total share capital.

Save as above, the Group did not have any material acquisitions or disposals of subsidiaries and associated companies during the period ended 30 June 2003.

CONTINGENT LIABILITIES

As at 30 June 2003 and 31 December 2002, the Directors are not aware of any material contingent liabilities.

CHARGE ON ASSETS

As at 30 June 2003 and 31 December 2002, the Group did not have any charge on its assets.

BANKING FACILITIES

As at 30 June 2003, the Group has no banking facilities.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus dated 31 July 2002, there are no future plans for material investments or capital assets.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations and investing activities with internally generated financial resources, proceeds from the placing of shares in August 2002 by the Company and loans and research grants from municipal government authorities. As at 30 June, 2003, the Group had outstanding loans from municipal government authorities of RMB2,050,000 which are unsecured and interest free.

As at 30 June 2003, the Group had a net cash and cash equivalent position of approximately RMB 110,642,000. Following the listing of the Company's shares on the GEM of the Stock Exchange on 13 August, 2002, the liquidity position of the Group has been strengthened with the proceeds from the placing of shares, which amounts to approximately HK\$125,386,000 after deducting all relevant expenses. The Group intends to apply these proceeds in the manner as disclosed in the Supplementary Prospectus of the Company dated 6 August, 2002.

The Group's gearing ratio at 30 June 2003 was 0.07 (31 December, 2002: 0.11) which is calculated based on the Group's total liabilities of RMB13,543,000 (31 December, 2002: RMB22,140,000) and shareholders' funds of RMB186,066,000 (31 December, 2002: RMB192,897,000).

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

FOREIGN EXCHANGE EXPOSURE

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

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

EMPLOYEES

As at 30 June 2003, the Group had a total of 110 employees, as compared to 106 employees as at 31 December 2002. Staff costs including directors' remuneration for the six months ended 30 June, 2003 and 2002 were RMB 5.1million and RMB4.6 million, respectively. The Group's employment and remuneration policies remained unchanged with those described in the Prospectus of the Company. The salaries and benefits of employees of the Group are kept at a competitive level and employees are rewarded on a performance related basis with general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory compulsory welfare plans, is also provided to employees.

PURCHASE, SALE OR REDEMPTION OF SHARES

Apart from the placing of H Shares of the Company on the GEM, neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed shares during the period from 13 August 2002 (date of listing of the Company's shares on the GEM) to 30 June 2003.

DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors, chief executive (the "Chief Executive") or supervisors (the "Supervisors") of the Company or their spouse or children under the age of 18 was granted by the Company or its subsidiary any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 30 June 2003.

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

As at 30 June 2003, the interests (including interests in shares and short positions) of the Directors, the Chief Executive and the Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, (a) as notified to the Company and the Stock Exchange pursuant to: Divisions 7 and 8 of Part XV of the Securities and

Futures Ordinance (“SFO”); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as required pursuant to Rules S.40 to S.5.58 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Name of Directors	Class of shares	Number of Domestic shares held	Capacity	Type of interest	Percentage holding in Domestic shares	Percentage of holding in total share capital
Wang Hai Bo	Domestic Shares	51,886,430 (L)	Beneficial owner	Personal	10.13%	7.31%
Su Yong	Domestic Shares	18,312,860 (L)	Beneficial owner	Personal	3.58%	2.58%
Zhao Da Jun	Domestic Shares	15,260,710 (L)	Beneficial owner	Personal	2.98%	2.15%
Fang Jing	Domestic Shares	5,654,600 (L)	Beneficial owner	Personal	1.10%	0.80%

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

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 June 2003, the persons other than a director, chief executive or supervisor of the Company who have interests or short positions in the share or underlying shares of the Company which are discloseable under Divisions 2 and 3 of Part XV of the SFO are listed as follows (the interests in shares and short positions disclosed herein are in addition to those disclosed in respect of the Directors, the Chief Executive and the Supervisors):

Name of substantial shareholders	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the respective class of share capital	Percentage in total share capital
Shanghai Pharmaceutical (Group) Corporation	Domestic Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	27.26%	19.66%
Shanghai Pharmaceutical Co., Ltd.	Domestic Shares	139,578,560 (L)	Beneficial Owner	Corporate	27.26%	19.66%

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
China General Technology (Group) Holding, Limited	Domestic Shares	130,977,816 (L)	Beneficial Owner	Corporate	25.58%	18.45%
Shanghai Zhangjiang (Group) Co. Ltd.	Domestic Shares	105,915,096 (L)	Interest of controlled corporation	Corporate	20.69%	14.92%
Shanghai Zhangjiang Hi-Tech Park Development Corp.	Domestic Shares	105,915,096 (L)	Beneficial Owner	Corporate	20.69%	14.92%
Fudan University	Domestic Shares	30,636,288 (L)	Beneficial Owner	Corporate	5.98%	4.31%
Shanghai Industrial Investment (Holdings) Co. Ltd.	H Shares	70,564,000 (L)	Interest of controlled corporation	Corporate	35.64%	9.94%
S.I. Pharmaceutical Holdings Ltd.	H Shares	65,856,000 (L)	Beneficial Owner	Corporate	33.26%	9.28%
SIIC Medical Science and Technology (Group) Limited	H Shares	4,708,000 (L)	Beneficial Owner	Corporate	2.38%	0.66%
HSBC International Trustee Limited	H Shares	12,600,000 (L)	Trustee (other than a bare trustee)	Corporate	6.36%	1.78%

Apart from the aforesaid and so far as the Directors are aware, there are no other persons who are interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

DETAILS OF OPTIONS GRANTED BY THE COMPANY

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

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

JOINT SPONSORS’ INTERESTS

Pursuant to a sponsors agreement dated 12 August 2002 between the Company, Guotai Junan Capital Limited (“Guotai Junan”) and Barits Securities (Hong Kong) Limited (“Barits”), Guotai Junan and Barits have been appointed as the joint sponsors to the Company as required under the GEM Listing Rules at a fee from 13 August 2002 to 31 December 2004.

As at 30 June 2003, one fellow subsidiary of Guotai Junan held 1,324,000 H Shares of the Company. Apart from the aforesaid, Guotai Junan, Barits, their directors, employees nor any of their respective associates did not have any interest in any securities of the Company or any of its associated corporations.

COMPETING INTERESTS

Save as disclosed in the following table, none of the Directors, the management shareholders of the Company and their respective associates had any interest in a business which competes or may compete with the businesses of the Group.

Shanghai Pharmaceutical Co., Ltd.

Investee company	Nature of business	Shareholding interests
Shanghai Tongyong Pharmaceutical Co., Ltd. (上海通用藥業股份有限公司)	Drug manufacturing	40%
Jiangxi Nanhua Pharmaceutical Co., Ltd. (江西南華醫藥有限公司)	Drug retailing	50%
Shanghai Pharmaceutical (Sudan) Co., Ltd. (上海制藥(蘇丹)有限公司)	Drug manufacturing	55%
Shanghai Hefeng Pharmaceutical Co., Ltd. (上海禾豐制藥有限公司)	Drug manufacturing	50%
Shanghai No. 9 Pharmaceutical (上海第九制藥廠)	Drug manufacturing	100%
Shanghai Changzheng Fuming Pharmaceutical Co., Ltd. (上海長征富民藥業有限公司)	Drug manufacturing	51%
Shanghai Changzheng Jinshan Pharmaceutical Co., Ltd. (上海長征富民金山制藥有限公司)	Drug manufacturing	65%
Shanghai Fuda Pharmaceutical Co., Ltd. (上海福達制藥業有限公司)	Drug manufacturing	70%
Anhui Huashi Pharmaceutical Co., Ltd. (安徽華氏醫藥有限公司)	Drug manufacturing	67%
Shanghai Huashi Pharmaceutical Co., Ltd. (上海華氏制藥有限公司) (<i>Note 1</i>)	Drug manufacturing	100%
Shanghai Huashi Pharmaceutical Hi-Tech Industrial Development Co., Ltd. (上海華氏醫藥高科技實業發展有限公司)	Drug introduction and R&D of chemical and initiative drugs	100%
Shanghai Jiufu Pharmaceutical Co., Ltd. (上海九福藥業有限公司)	Drug manufacturing	50%
Maanshan City Huashi Pharmaceutical Co., Ltd. (馬鞍山市華氏醫藥有限公司)	Drug trading	50%
Anhui Province Huajinshi Wuhu Pharmaceutical Co., Ltd. (安徽省華金氏蕪湖有限公司)	Drug trading	80%

China General Technology (Group) Holding, Ltd.

Investee company	Nature of business	Shareholding interests
Hainan Tongmeng Pharmaceutical Co., Ltd. (海南同盟藥業有限公司)	Drug manufacturing	49%
Hainan Sanyang Pharmaceutical Co., Ltd. (海南三洋藥業有限公司) (Note 2)	Drug manufacturing	65%
China Pharmaceutical Health Accessories Import and Export Corporation (中國醫藥保健品進出口總公司)	Drug trading	100%
Yunnan Tongyong Shanmei Pharmecautil Co.,Ltd. (雲南通用善美制藥有限公司)	Drug manufacturing	51%

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

Investee company	Nature of business	Shareholding interests
Meilian Biotechnology Company (美聯生物技術公司)	R&D of genetic pattern	49.47%
Shanghai National Bio-pharmaceutical Base Pharmaceutical Selling Co., Ltd. (上海國家生物醫藥基地醫藥銷售有限公司)	Sales of drugs	75%
Shanghai Zhangjiang Desano Science and Technology Co., Ltd. (上海張江迪賽諾科技產業有限公司)	Manufacturing and sales of intermediate products of drugs	51%

Notes:

1. Yu Qing Hua, a non-executive Director and director of Shanghai Pharmaceutical Co., Ltd., was nominated and appointed by Shanghai Pharmaceutical Co., Ltd. as the chairman of the board of Shanghai Huashi Pharmaceutical Co., Ltd..
2. Zhang Li Qiang, a non-executive Director and a deputy general manager of China General Industry Company, was nominated and appointed by China General Industry Company to be the chairman of the board of Hainan Sanyang Pharmaceutical Co., Ltd..
3. Fang Jin, a non-executive Director, was nominated and appointed by Shanghai Zhangjiang Hi-Tech Park Development Corp. as the director of the board of Shanghai National Bio-pharmaceutical Base Pharmaceutical Selling Co., Ltd..
4. Save for notes (1), (2) and (3) above, the above initial management shareholders have no board representation in the investee companies listed above.

AUDIT COMMITTEE

The Company has established an audit committee on 30 January 2002 with written terms of reference based on the guidelines recommended by the Hong Kong Society of Accountants. The original members of the audit committee, namely Mr. Pei Gang and Mr. Feng Zhengquan, resigned on 3 March 2003 and 20 June 2003, respectively. The audit committee now comprises three independent non-executive Directors of the Company, namely Mr. Pan Fei, who is the chairman, Mr. Weng Dezhang and Mr. Cheng Lin.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the interim report for the six months ended 30 June 2003, with the Directors.

By Order of the Board
Wang Hai Bo
Chairman

Hong Kong, 8 August 2003

This announcement will remain on the GEM website for at least 7 days from the date of its posting.

** For identification purpose only*