



上海復旦張江生物醫藥股份有限公司

**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.\***

*(a joint stock limited company incorporated in the People's Republic of China)*

(Stock Code: 8231)

## **THIRD QUARTERLY RESULTS ANNOUNCEMENT**

### **For the nine months ended 30 September 2004**

The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM”) has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of The Stock Exchange of Hong Kong Limited and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by The Stock Exchange of Hong Kong Limited. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors (the “Directors”) of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*The Directors are pleased to present the unaudited consolidated third quarterly results of the Company together with its subsidiaries (collectively the “Group”) for the nine months ended 30 September 2004.*

\* For identification purpose only

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review for the nine months ended 30 September 2004

For the nine months ended 30 September 2004, the Group realized a turnover of approximately RMB9,382,000, the relative figure for the corresponding period in 2003 being RMB6,546,000.

Of the total turnover of the Group for the past nine months, RMB4,200,000 (or 45% of the total turnover) came from the income of technology transfer, and the rest which is approximately RMB5,182,000 (or 55% of the total turnover) was derived from the sale of diagnostic products and the provision of relevant auxiliary services. The entire turnover for the same period last year was derived from the sales of diagnostic reagents.

As compared with the same period in 2003, the Group's total turnover for the first nine months of 2004 increased by 43%. This is mainly because the Group has been undergoing the process of conveying several technology transfers, and has obtained and therefore recognized part of the contract income during the period under review.

Sales of the diagnostic products dropped by 21% in contrast to the same period in 2003. This is because the Group is currently at a crucial time of transforming its core business area from pure research and development ("R&D") to a combination of R&D and commercialization. By giving up some immediate but yet short-term returns from the sales of traditional diagnostic products, the management has modified the marketing strategies to promote new products with more growth potential and long-term prospect.

The total expenses of the Group for the nine months ended 30 September 2004 were approximately RMB28,796,000, compared with RMB24,838,000 for the corresponding period in 2003. The extra expenditure over that of last year was primarily spent on marketing and administration. As mentioned above, these expenses were the initial outflow of launching the new products, which are deemed to be heavier than if the Group were in its normal course of business.

The Group recorded a loss attributable to shareholders of approximately RMB13,409,000 for the nine months ended 30 September 2004, whereas the loss attributable to shareholders for the same period last year was RMB14,135,000.

### BUSINESS REVIEW

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

Regarding R&D, (1) the recombinant human interleukin-1 receptor antagonist (重組人白細胞介素1受體拮抗劑)(rhIL-1Ra) for the treatment of arthritis, (2) the recombinant human parathyroid hormone derivatives (重組人甲狀旁腺激素)(rhPTH) for the treatment of osteoporosis and (3) 5-aminolevulinic acid (5-氨基酮戊酸鹽)(ALA) for the treatment of acute condyloma have been admitted to enter into the clinical research stage by the State Food and Drug Administration of the PRC (the "SFDA"). Research on lymphotoxin derivatives of selective combination of P55 and P75 receptor achieved significant progress and the Company intends

to apply for patent of its research. Research on new drug for inhibiting HIV virus progressed smoothly. The Company has applied for a patent of the resultant compound. Research on drug delivery system of liposome also proceeded smoothly. It is expected that an application for a production approval can be made to the SFDA during the year. During the period under review, newly and continuously granted subsidies from various levels of the government departments amounted to RMB1,370,000.

In respect of technological transfer, the Group has made proactive efforts to tap into the international market. Following the technological transfer and technological services contract with a Taiwanese and a Singaporean company, the Group entered into a third technological transfer contract with another Taiwanese company, pursuant to which the overseas rights of the technology would be transferred to that company at a consideration of RMB2,300,000. Meanwhile, the Group would withhold certain percentage of the sales revenue. The Group strategically retained the copyrights of these R&D projects in the mainland and transferred part of the overseas rights of the projects to foreign companies. This not only allows the Group to maintain its market share in the huge domestic market but also allows it to tap into overseas markets indirectly.

In respect of patents, the Group always actively protects the intellectual properties of its innovative drugs and results of scientific research. During the period under review, the Group has applied for registration of a total of six patents. Among these, Hemporfin for the treatment of eyeground macular degeneration and Arginine Deiminase which performs anti-tumor activities, were Patent Cooperation Treaty (“PCT”) patents. During the period under review, the Group obtained registration of eight patents.

In respect of commercialization, antenatal screening system for Down’s syndrome has been awarded the drug registration certificate and the GMP accreditation by the SFDA. This was the first product approved for production and sale by the SFDA since the commencement of the “Birth Defects Interference Engineering” project in the PRC. The target market of this product is the approximately 20,000 annual newborn babies. The introduction of this product into the mass market is a new milestone for the Group’s commercialization pursuit.

## **Prospects**

Five of the Group’s R&D projects have been permitted to start clinical research. It is expected that several more projects will be admitted to the clinical stage in the current year or in the near future. This well proves the R&D ability of the Group and also indicates that the Group is gradually shifting its business focus from pure R&D to commercialization. In particular, the award of the drug registration certificate and GMP accreditation of the Group’s antenatal screening system for Down’s syndrome provides further evidence that the commencement of the Group’s commercialization phase. The Group is proactively planning the advancements of these R&D projects based on the progress of its clinical research. The management believes that the launch of these projects will create a huge opportunity for future development for the Group. The Group will keep on complying with the principle of promoting its R&D of innovative drugs and the resulting commercialization simultaneously, in order to gain the leading edge among pharmaceutical enterprises.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Apart from the placing of H Shares of the Company on the GEM, neither the Company nor its subsidiaries 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 September 2004.

## 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 spouses or children under the age of 18 was granted by the Company or its subsidiaries any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 30 September 2004.

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

As at 30 September 2004, the interests (including interests in shares and/or short positions) of the Directors, the Chief Executive and the Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, (a) as notified to the Company and the Stock Exchange pursuant to: Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO"); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

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

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

## SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 September 2004, the persons other than a director, chief executive or supervisor of the Company who have interests and/or short positions in the shares or underlying shares of the Company which are required to disclose under Divisions 2 and 3 of Part XV of the SFO are listed as follows (the interests in shares and short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, the Chief Executive and the Supervisors):

<b>Name of substantial shareholders</b>	<b>Class of shares</b>	<b>Number of shares held</b>	<b>Capacity</b>	<b>Type of interest</b>	<b>Percentage in the respective class of share capital</b>	<b>Percentage in total share capital</b>
Shanghai Pharmaceutical (Group) Corporation	Domestic Shares	139,578,560(L)	Interest of controlled corporation	Corporate	27.26%	19.66%
Shanghai Pharmaceutical Co., Ltd.	Domestic Shares	139,578,560(L)	Beneficial Owner	Corporate	27.26%	19.66%
China General Technology (Group) Holding, Limited	Domestic Shares	130,977,816(L)	Beneficial Owner	Corporate	25.58%	18.45%
Shanghai Zhangjiang (Group) Co. Ltd.	Domestic Shares	105,915,096(L)	Interest of controlled corporation	Corporate	20.69%	14.92%
Shanghai Zhangjiang Hi-Tech Park Development Corp.	Domestic Shares	105,915,096(L)	Beneficial Owner	Corporate	20.69%	14.92%
Fudan University	Domestic Shares	30,636,288(L)	Beneficial Owner	Corporate	5.98%	4.31%
Shanghai Industrial Investment (Holdings) Co. Ltd.	H Shares	70,564,000(L)	Interest of controlled corporation	Corporate	35.64%	9.94%

<b>Name of substantial shareholders</b>	<b>Class of shares</b>	<b>Number of shares held</b>	<b>Capacity</b>	<b>Type of interest</b>	<b>Percentage in the respective class of share capital</b>	<b>Percentage in total share capital</b>
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%

#### **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 subsidiaries 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 director or full-time employee of the Company or its subsidiaries 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 September 2004, one fellow subsidiary of Guotai Junan held 1,208,000 H Shares of the Company. Apart from the aforesaid, Guotai Junan, Barits, their directors, employees or 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.*

<b>Investee company</b>	<b>Nature of business</b>	<b>Shareholding interests</b>
Shanghai Tongyong Pharmaceutical Co., Ltd. (上海通用藥業股份有限公司)	Drug manufacturing	40%
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 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</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%

*China General Technology (Group) Holding, Ltd.*

<b>Investee company</b>	<b>Nature of business</b>	<b>Shareholding interests</b>
Hainan Tongmeng Pharmaceutical Co., Ltd. (海南同盟藥業有限公司)	Drug manufacturing	49%
Hainan Sanyang Pharmaceutical Co., Ltd. (海南三洋藥業有限公司)	Drug manufacturing	65%
Yunnan Tongyong Shanmei Pharmecautical 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.*

<b>Investee company</b>	<b>Nature of business</b>	<b>Shareholding interests</b>
Meilian Biotechnology Company (美聯生物技術公司)	R&D of genetic pattern	49.47%

*Note:*

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..

## **BOARD PRACTICES AND PROCEDURES**

During the nine months ended 30 September 2004, the Company has been complying with Rules 5.34 to 5.45 of the GEM Listing Rules relating to the board practices and procedures.

## **SECURITIES TRANSACTIONS BY DIRECTORS**

During the nine months ended 30 September 2004, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings stipulated in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the Directors have been complying with the required standard of dealings and the code of conduct for directors' securities transactions during the nine months ended 30 September 2004.

## AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors of the Company, namely Mr. Pan Fei, who is the chairman, Mr. Weng Dezhong and Mr. Cheng Lin.

The audit committee, together with the management team of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the Directors, including a review of the third quarterly report for the three months and nine months ended 30 September 2004.

## CONSOLIDATED RESULTS

	Unaudited three months ended		Unaudited nine months ended	
	30 September		30 September	
	2004	2003	2004	2003
Note	RMB'000	RMB'000	RMB'000	RMB'000
<b>Revenues</b>				
Turnover	2,467	1,568	9,382	6,546
Other revenue	<u>260</u>	<u>879</u>	<u>810</u>	<u>2,335</u>
<b>Total revenues</b>	<b>2,727</b>	<b>2,447</b>	<b>10,192</b>	<b>8,881</b>
<b>Costs and expenses</b>				
Cost of sales	(1,574)	(856)	(6,520)	(4,954)
Research and development costs	(3,940)	(5,922)	(11,685)	(11,168)
Distribution costs	(662)	(615)	(1,718)	(1,678)
Administrative expenses	(3,778)	(2,166)	(8,342)	(6,711)
Other operating expenses	<u>(80)</u>	<u>(248)</u>	<u>(531)</u>	<u>(327)</u>
<b>Total costs and expenses</b>	<b>(10,034)</b>	<b>(9,807)</b>	<b>(28,796)</b>	<b>(24,838)</b>
Other income	<u>1,419</u>	<u>889</u>	<u>4,101</u>	<u>2,510</u>
<b>Operating loss</b>	<b>(5,888)</b>	<b>(6,471)</b>	<b>(14,503)</b>	<b>(13,447)</b>
Share of results of associate before taxation	<u>(496)</u>	<u>(724)</u>	<u>(1,579)</u>	<u>(956)</u>
<b>Loss before taxation</b>	<b>(6,384)</b>	<b>(7,195)</b>	<b>(16,082)</b>	<b>(14,403)</b>
Taxation	2 <u>769</u>	<u>(373)</u>	<u>1,868</u>	<u>(301)</u>
<b>Loss after taxation</b>	<b>(5,615)</b>	<b>(7,568)</b>	<b>(14,214)</b>	<b>(14,704)</b>
Minority interests	<u>345</u>	<u>264</u>	<u>805</u>	<u>569</u>
<b>Loss attributable to shareholders</b>	<b><u>(5,270)</u></b>	<b><u>(7,304)</u></b>	<b><u>(13,409)</u></b>	<b><u>(14,135)</u></b>
<b>Loss per share (RMB)</b>	3 <b><u>(0.0074)</u></b>	<b><u>(0.0103)</u></b>	<b><u>(0.0189)</u></b>	<b><u>(0.0199)</u></b>

## NOTES:

### 1. Accounting policies and basis of preparation

The principal accounting policies used in the preparation of the unaudited consolidated results are consistent with those used in the preparation of the Group's financial information included in the accountants' report as set out in the prospectus used on 31 July 2002 in connection with the placing of H shares of the Company on the GEM. The unaudited consolidated results are prepared in accordance with the International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board. They have been prepared under the historical cost convention except that, the available-for-sale investments are adjusted to fair value.

The unaudited results have been prepared on a consolidated basis which includes 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 between group companies are eliminated; unrealized losses are also 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.

### 2. Taxation

	Unaudited three months ended 30 September		Unaudited nine months ended 30 September	
	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax credit/(charge)	<u>769</u>	<u>(373)</u>	<u>1,868</u>	<u>(301)</u>

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

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 nine months ended 30 September 2004 (2003: Nil), as they had no taxable income during the period.

### 3. Loss per share

The calculation of the loss per share for the three months and nine months ended 30 September 2004 was based on the unaudited loss attributable to shareholders of approximately RMB5,270,000 and RMB13,409,000 respectively (three months and nine months ended 30 September 2003: unaudited loss attributable to shareholders of approximately RMB7,304,000 and RMB14,135,000 respectively) and total of 710,000,000 shares in issue during the three months and nine months ended 30 September 2004 (2003: 710,000,000 shares).

Diluted loss per share has not been calculated for the three months and nine months ended 30 September 2004 and 30 September 2003 as there was no dilutive potential ordinary share during those periods.

### 4. Dividend

The Directors do not recommend any payment of interim dividend for the three months and nine months ended 30 September 2004 (2003: Nil).

5. Shareholders' fund

	Share capital RMB'000	Capital accumulation reserve RMB'000	Unaudited Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Retained earnings/ (accumulated loss) RMB'000	Total RMB'000
Balance at 1 January 2003	71,000	115,014	1,709	1,120	4,054	192,897
Loss for the period	—	—	—	—	(14,135)	(14,135)
Balance at 30 September 2003	<u>71,000</u>	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(10,081)</u>	<u>178,762</u>
Balance at 1 January 2004	71,000	115,014	1,709	1,120	(14,293)	174,550
Loss for the period	—	—	—	—	(13,409)	(13,409)
Balance at 30 September 2004	<u>71,000</u>	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(27,702)</u>	<u>161,141</u>

By Order of the Board  
**Wang Hai Bo**  
*Chairman*

Shanghai, PRC  
10 November 2004

As at the date thereof, the Board comprises:

Mr. Wang Hai Bo (Executive Director)  
Mr. Su Yong (Executive Director)  
Mr. Zhao Da Jun (Executive Director)  
Mr. Yu Qing Hua (Non-executive Director)  
Mr. Lou Yi (Non-executive Director)  
Ms. Fang Jing (Non-executive Director)  
Mr. Jiang Guo Xing (Non-executive Director)  
Mr. Pan Fei (Independent Non-executive Director)  
Mr. Cheng Lin (Independent Non-executive Director)  
Mr. Weng De Zhang (Independent Non-executive Director)

*This announcement will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting.*