



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: 8231)

### **Interim Results Announcement**

**For the six months ended 30 June 2005**

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

The 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 2005.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial review for the six months ended 30 June 2005**

For the six months ended 30 June 2005, the Group recorded a turnover of approximately RMB6,460,000, the comparative figure for 2004 being RMB6,915,000.

Of the total turnover of the Group for the first half year of 2005, RMB5,246,000 (or 81% of total turnover) was derived from the sale of medical diagnostic products and the provision of relevant auxiliary services, and RMB1,214,000 (or 19% of total turnover) came from the income of technology transfer and technical service. In contrast, of the total turnover of the same period last year, RMB4,215,000 (or 61% of total turnover) was obtained from the sale of diagnostic products, and RMB2,700,000 (or 39% of total turnover) came from the income of technology transfer.

The Group’s total turnover for the first half of 2005 has dropped by 7% from the level of the same period last year. Out of this, the sale of diagnostic products has witnessed an increase of 24% from that of last year. This is mainly because that the new product of the Group, Down’s Syndrome Antenatal Screening System, has obtained a certain degree of market recognition, and has realized some sales revenues. Meanwhile, the income of technology transfer and technical service has reduced by 55% comparatively. The only income recognized from technology transfer for the period under review was generated by the technology of Mycophenolate Mofetil(霉酚酸酯), which was transferred from a subsidiary of the Group, Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. (“Morgan-Tan”), to a pharmaceutical company based in Shandong. In addition, RMB14,000 was the earning of the Group for external technical service provision.

For the six months ended 30 June 2005, cost of sales of the Group was approximately RMB5,689,000, whereas the comparative figure for the same period in 2004 was RMB4,946,000. The rising cost of sales was largely attributable to the extra spending on product quality control, which aimed at a strict application of the GMP standard, so as to establish a better market image for the new product to compete for some bigger market shares in the future.

Within the period under review, operating loss of the Group was approximately RMB10,773,000, compared to RMB8,615,000 for that of last year. The major reasons for the increased loss are, in addition to the increased cost of sales as mentioned above, distribution costs have also increased by 136% from that of last year. The newly adopted aggressive marketing strategy calls for more resources to be devoted to market expansion and sustaining of sales teams, which resulted in an increase in distribution costs. On the other hand, due to some efficient controls on administrative expenses and other operating expenses, expenditure on these two items has reduced by 24% and 66% respectively.

The Group recorded a loss attributable to shareholders of approximately RMB9,779,000 for the six months ended 30 June 2005, whereas the loss attributable to shareholders for the same period last year was RMB8,139,000.

## **BUSINESS REVIEW**

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

During the period under review, ideal progresses have been made in the Group’s R&D, technological transfer and commercialization.

In respect of R&D, three products, including the light sugar for the treatment of diabetes, the recombinant human tumor necrosis recipient FC fusion protein Etanercept (重組人腫瘤壞死因數受體 — FC融合蛋白) for the treatment of arthritis, and Hemporfin (海姆泊芬), a photodynamic therapy drug for the treatment of port wine stain, have been approved by the State Food and Drug Administration (“SFDA”) to enter into clinical research. The clinical testing of ALA (5-氨基酮戊酸鹽) for the treatment of acute condyloma (尖銳濕疣) has been progressing smoothly, with satisfactory results.

In respect of technology transfer, the Group has been actively exploiting overseas markets. Following the successful transfer of the overseas right of a technology to a company in Taiwan, the Group managed to transfer the domestic rights of the same technology to a company in the PRC for a consideration of RMB17,000,000 in February 2005, while retaining a certain proportion of the sales income commission. The Group has strategically transferred the domestic right and overseas right of the project to an overseas and a domestic company respectively, which contributes to the profit maximization on that project.

In respect of patents, the Group has always endeavored to protect its intellectual property rights on the innovative medicines and research achievements. During the period under review, the Group has applied for 5 invention patents, one of which was a Patent Cooperation Treaty (PCT) patent.

In respect of commercialization, the Group has devoted its efforts on marketing the series of medical diagnostic products, and has acquired the Medical Device Registration Certificates for 25 medical diagnostic products, totaling the Certificates obtained by far to 38. The Group is fully engaged in the market exploration for the Down’s Syndrome antenatal screening system.

## **PROSPECTS**

A number of drugs of the Group have been approved by the SFDA to enter into the clinical testing, and clinical research has therefore become the focus of business. The Group will continue the recruitment of professional expertise, to carry out the clinical research actively and effectively.

The clinical testing of photodynamic new drug ALA (5-氨基酮戊酸鹽) for the treatment of acute condyloma has been progressing satisfactorily, and application has been made for the production of Doxorubicin Liposome (脂質體阿霉素) for the treatment of tumor. These two products will be put into production next year, and the Group is currently planning for the construction of manufacturing facilities, to go in line with the process of GMP certification and market launch of these two products. It is anticipated that the production of these two products will generate some revenues to the Group.

In respect of commercialization, the Group has already has diagnostic reagents, HLA genetic chips, Down's Syndrome antenatal screening system in production and sales. Plus the photodynamic new drug ALA (5-氨基酮戊酸鹽) and Doxorubicin Liposome (脂質體阿霉素) which will be approved for production in the near future, the Group is speeding up the completion of business transformation the pure R&D to a combination of R&D and commercialization, thereby enabling itself to head for a steadier development stage.

## **DIVIDEND**

After due consideration of the requirement for working capital and future development of the Group, the Directors did not recommend the payment of an interim dividend for the six months ended 30 June, 2005.

## **SIGNIFICANT INVESTMENTS**

As at 30 June 2005, the Group did not have any significant investment.

## **MATERIAL ACQUISITION & DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

The Group did not have any material acquisition or disposal of subsidiaries and associated companies during the period ended 30 June 2005.

## **CONTINGENT LIABILITIES**

As at 30 June 2005, the Directors were not aware of any material contingent liabilities.

## **CHARGE ON ASSETS**

As at 30 June 2005, the Group did not have any charge on its assets.

## **BANKING FACILITIES**

As at 30 June 2005, the Group has no banking facilities.

## **FUTURE PLANS FOR MATERIAL INVESTMENT OR EQUITY CAPITAL**

As at 30 June 2005, the Group has no future plans for material investment or equity capital.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group generally finances its operating 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 2005, the Group had an outstanding loan from municipal government of RMB1,650,000 which is unsecured and interest free.

As at 30 June 2005, the Group had a net cash and cash equivalent balance of approximately RMB 54,998,000. 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 amounted to approximately HK\$125,386,000 after deducting all relevant expenses. The Group applies 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 2005 was 0.08 (31 December, 2004: 0.10) which is calculated based on the Group's total liabilities of RMB11,353,000 (31 December, 2004: RMB14,980,000) and shareholders' funds of RMB139,870,000 (31 December, 2004: RMB149,649,000).

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 on the domestic market. Part of the cash proceeds from the placing of H shares in August 2002 denominated in HK dollars has not been converted to RMB. Though the official exchange rate for HK dollar and RMB has generally been stable, the results of operation and financial position of the Group may be affected by the changes in the exchange rates.

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

## **EMPLOYEES**

As at 30 June 2005, the Group had a total of 133 employees, comparing with 127 employees as at 30 June 2004. Staff costs including directors' remuneration for the six months ended 30 June 2005 and 2004 were RMB6,332,000 and RMB4,784,000 respectively. The Group's employment and remuneration policies remained unchanged with those described in the Prospectus of the Company. 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, are also provided to employees.

## **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 nor 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 June 2005.

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

As at 30 June 2005, the interests (including interests in shares and / or short positions) of the Directors, the Chief Executive and the Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, (a) as notified to the Company and the Stock Exchange pursuant to: Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO"); (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

<b>Name of Directors</b>	<b>Class of shares</b>	<b>Number of Domestic shares held</b>	<b>Capacity</b>	<b>Type of interest</b>	<b>Percentage of holding in Domestic shares</b>	<b>Percentage of holding in total share capital</b>
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 2005, the persons other than a director, chief executive or supervisor of the Company who have interests and / or short positions in the shares or underlying shares of the Company subject to disclosure under Divisions 2 and 3 of Part XV of the SFO are listed as follows (the interests in shares and short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, Chief Executive and Supervisors):

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

## 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%
Ningbo Asia-Pacific Bio-technology Co., Ltd. (寧波亞太生物技術有限公司)	Drug manufacturing	89%
Shanghai Qingping Pharmaceutical Co., Ltd. (上海青平藥業有限公司)	Drug manufacturing	39%
Shanghai Hefeng Pharmaceutical Co., Ltd. (上海禾豐制藥有限公司)	Drug manufacturing	50%
Shanghai Fuda Pharmaceutical Co., Ltd. (上海福達制藥有限公司)	Drug manufacturing	70%
Shanghai Huashi Pharmaceutical Co., Ltd. (上海華氏制藥有限公司) (Note)	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%

### *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%

## **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.

## **BOARD PRACTICES AND PROCEDURES**

During the six months ended 30 June 2005, 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 six months ended 30 June 2005, 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 of the Company 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 2005.

## **AUDIT COMMITTEE**

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

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the management team of the Company, including a review of the interim report for the six months ended 30 June 2005.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 June 2005.

## **PRE-EMPTIVE RIGHTS**

There is no regulation for the purchase of the pre-emptive rights as set out in the articles of association of the Company or by the laws of the People’s Republic of China (“PRC”, being the jurisdiction in which the Company was established), which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

## **INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

Pursuant to the regulations prescribed by the GEM Listing Rules, each of the independent non-executive directors of the Company has confirmed with the Company their independence. The Company has received such confirmation from the independent non-executive Directors and considered the independent non-executive Directors as independent.

## **COMPLIANCE WITH THE GEM LISTING RULES**

The Company has complied with rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the H Shares on GEM on 13 August 2002.

## **CORPORATE GOVERNANCE**

The Board of Directors has reviewed the documents relating to corporate governance practices adopted by the Company and considered that it had complied with most of the principles and codes set out in the Code on Corporate Governance Practices (the “Code”) under the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited. On some aspects, the Company has adopted a code on corporate governance no less exacting than the provisions set out in the Code. The areas that adopted by the Company being stricter than the Code or divergent from the Code are as follows:

The main provision which is stricter than the Code:

- All members of the Audit Committee are independent non-executive directors.

The areas which are divergent from the Code:

- Though the roles of Chairman and General Manager are separate, the two posts are taken by one person. The Company has not recruited the best candidate for the post of General Manager.
- The Company has not set up a remuneration committee within the period under review. Nevertheless, the Directors’ remuneration policies have been approved in the General Meetings and stipulated in the Directors’ service contracts. The Company has established a remuneration committee on the Board Meeting held on 10 August 2005.
- The Company has not had any written guidelines prepared on the trading of the Company’s securities by the employees within the period under review. The Board Meeting held on 10 August 2005 has passed the resolution of the regulations on the trading of the Company’s securities.

## CONSOLIDATED RESULTS

	Note	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	3	<b>2,041</b>	3,954	<b>6,460</b>	6,915
Cost of sales		<b>(1,831)</b>	(2,874)	<b>(5,689)</b>	(4,946)
<b>Gross profit</b>		<b>210</b>	1,080	<b>771</b>	1,969
Other income		<b>1,294</b>	1,468	<b>2,441</b>	3,232
Research and development costs		<b>(3,285)</b>	(3,709)	<b>(7,851)</b>	(7,745)
Distribution costs		<b>(1,408)</b>	(547)	<b>(2,490)</b>	(1,056)
Administrative expenses		<b>(1,921)</b>	(2,346)	<b>(3,490)</b>	(4,564)
Other operating expenses		<b>(123)</b>	(299)	<b>(154)</b>	(451)
<b>Operating loss</b>	4	<b>(5,233)</b>	(4,353)	<b>(10,773)</b>	(8,615)
Share of results of associate before taxation		<b>(569)</b>	(487)	<b>(798)</b>	(1,082)
<b>Loss before taxation</b>		<b>(5,802)</b>	(4,840)	<b>(11,571)</b>	(9,697)
Taxation credit	5	<b>530</b>	630	<b>1,109</b>	1,098
<b>Loss after taxation</b>		<b>(5,272)</b>	(4,210)	<b>(10,462)</b>	(8,599)
Minority interests		<b>443</b>	170	<b>683</b>	460
<b>Loss attributable to shareholders</b>		<b>(4,829)</b>	(4,040)	<b>(9,779)</b>	(8,139)
<b>Dividends</b>	6	<b>—</b>	—	<b>—</b>	—
<b>Basic loss per share (RMB)</b>	7	<b>(0.0068)</b>	(0.0057)	<b>(0.0138)</b>	(0.0115)

## CONSOLIDATED BALANCE SHEETS

		Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
	<i>Note</i>		
<b>Non-current assets</b>			
Leasehold land payments	8	8,917	8,970
Fixed assets	8	42,352	43,366
Technical know-how	8	5,689	6,386
Deferred development costs	8	16,309	17,218
Investment in an associate		2,013	2,667
Available-for-sale investments		<u>4,632</u>	<u>3,485</u>
		<u>79,912</u>	<u>82,092</u>
<b>Current assets</b>			
Inventories		4,400	3,552
Trade receivables	9	1,895	1,864
Other receivables, deposits and prepayments		2,360	1,167
Amounts due from related companies		1,000	1,000
Amount due from a shareholder		250	250
Amount due from a subsidiary		1,159	2,318
Term deposits in bank with maturities of three to twelve months		9,000	11,896
Cash and bank balances		<u>54,998</u>	<u>64,924</u>
		<u>75,062</u>	<u>86,971</u>
<b>Current liabilities</b>			
Trade payables	10	724	3,060
Other payables and accruals		4,750	4,521
Deferred revenue		3,135	4,749
Current tax liabilities		94	—
Loans from municipal government authorities	11	1,650	1,650
Amount due to a shareholder		<u>1,000</u>	<u>1,000</u>
		<u>11,353</u>	<u>14,980</u>
<b>Net current assets</b>		<u>63,709</u>	<u>71,991</u>
<b>Total assets less current liabilities</b>		<u>143,621</u>	<u>154,083</u>
<b>Financed by:</b>			
Share capital		71,000	71,000
Reserves		<u>68,870</u>	<u>78,649</u>
<b>Shareholders' funds</b>		<u>139,870</u>	<u>149,649</u>
<b>Minority interests</b>		<u>3,751</u>	<u>4,434</u>
		<u>143,621</u>	<u>154,083</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Unaudited Six months ended 30 June 2005 RMB'000</b>	Unaudited Six months ended 30 June 2004 RMB'000
Net cash used in operation activities	(12,535)	(11,802)
Net cash used in investing activities	<u>2,609</u>	<u>(17,260)</u>
Decrease in cash and cash equivalents	<u>(9,926)</u>	<u>(29,062)</u>
<b>Movement in cash and cash equivalents</b>		
At the beginning of the period	64,924	65,673
Decrease	<u>(9,926)</u>	<u>(29,062)</u>
At the end of the period	<u>54,998</u>	<u>36,611</u>
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash and bank balances	54,514	26,322
Deposits in other financial institutions	<u>484</u>	<u>10,289</u>
	<u>54,998</u>	<u>36,611</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<b>Share capital</b>	<b>Capital accumulation reserve</b>	<b>Unaudited Statutory common reserve fund</b>	<b>Statutory common welfare fund</b>	<b>Retained earnings/ (Accumulated loss)</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2004	71,000	115,014	1,709	1,120	(14,293)	174,550
Loss for the period	—	—	—	—	(8,139)	(8,139)
Balance at 30 June 2004	<u>71,000</u>	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(22,432)</u>	<u>166,411</u>
Balance at 1 January 2005	71,000	115,014	1,709	1,120	(39,194)	149,649
Loss for the period	—	—	—	—	(9,779)	(9,779)
Balance at 30 June 2005	<u>71,000</u>	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(48,973)</u>	<u>139,870</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 (“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 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 with a par value of RMB0.10 each.

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

As of the date of this report, the Company has direct interests of 68.75% and 65% in two subsidiaries, Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. (“Morgan-Tan”) and Shanghai Ba Dian Medicine Co., Ltd. (“Ba Dian”), 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, manufacturing and selling of diagnostic reagent and the provision of related ancillary services in the PRC.

### 2. 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 shares of the Company on the GEM. The unaudited consolidated results are prepared in accordance with International Financial Reporting Standards.

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 govern the financial and operating policies. 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.

### 3. Turnover and segmental information

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

	Unaudited three months ended 30 June 2004			Unaudited three months ended 30 June 2004		
	Research and development activities <i>RMB'000</i>	Sales of diagnostic products and the provision of related ancillary services <i>RMB'000</i>	Total <i>RMB'000</i>	Research and development activities <i>RMB'000</i>	Sales of diagnostic products and the provision of related ancillary services <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover	<u>14</u>	<u>2,027</u>	<u>2,041</u>	<u>2,500</u>	<u>1,454</u>	<u>3,954</u>
Segment loss	(3,271)	(1,212)	(4,483)	(285)	(1,721)	(2,006)
Unallocated income			1,294			298
Unallocated loss			<u>(2,613)</u>			<u>(3,132)</u>
Loss before taxation			(5,802)			(4,840)
Taxation credit			<u>530</u>			<u>630</u>
Loss after taxation			(5,272)			(4,210)
Minority interests			<u>443</u>			<u>170</u>
Loss attributable to shareholders			<u>(4,829)</u>			<u>(4,040)</u>

	Unaudited six months ended 30 June 2004			Unaudited six months ended 30 June 2004		
	Research and development activities <i>RMB'000</i>	Sales of diagnostic products and the provision of related ancillary services <i>RMB'000</i>	Total <i>RMB'000</i>	Research and development activities <i>RMB'000</i>	Sales of diagnostic products and the provision of related ancillary services <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover	<u>1,214</u>	<u>5,246</u>	<u>6,460</u>	<u>2,700</u>	<u>4,215</u>	<u>6,915</u>
Segment loss	(7,173)	(2,397)	(9,570)	(4,829)	251	(4,578)
Unallocated income			2,440			978
Unallocated loss			<u>(4,441)</u>			<u>(6,097)</u>
Loss before taxation			(11,571)			(9,697)
Taxation credit			<u>1,109</u>			<u>1,098</u>
Loss after taxation			(10,462)			(8,599)
Minority interests			<u>683</u>			<u>460</u>
Loss attributable to shareholders			<u>(9,779)</u>			<u>(8,139)</u>

*Note:* There are no sales or other transactions between the business segments. Unallocated income and unallocated costs mainly represent 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 derives 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 before taxation

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

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Amortisation of government grants and other non-refundable grants	(1,103)	(1,052)	(2,015)	(2,254)
Amortisation of leasehold land payments	26	27	53	54
Amortisation of deferred development costs	455	282	909	421
Amortisation of technical know-how	749	633	1,497	1,266
Depreciation of fixed assets	1,079	894	2,104	1,914
Less: amount capitalized in deferred development costs	—	(66)	—	(66)
	1,079	828	2,104	1,848
Research and development expenditure (note)	3,285	3,709	7,851	7,745
Staff costs (note)				
Housing subsidy	492	319	966	624
Retirement benefit costs	343	197	645	375
Social security costs	194	122	366	232
Wages and salaries	1,939	1,854	4,355	3,553
	2,968	2,491	6,332	4,784
Unrealised loss on available-for-sale investments	154	184	113	163
Realised (profit)/loss on available-for-sale investments	35	(15)	(5)	(283)

*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

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Deferred tax credit	530	630	1,109	1,098

The Company, its subsidiaries and associate are 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, and is operating and registered in the State Level New and High Technology Development Zone, it is entitled to a reduced Income Tax rate of 15%. As the subsidiaries and associate are recognized as domestic companies registered in Shanghai Pudong New Area, they are also entitled to the reduced Income Tax rate of 15%. Accordingly, the Company, its subsidiaries and associate are subject to Income Tax at a rate of 15%.

6. **Dividend**

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil).

7. **Loss per share**

The calculation of the loss per share for the three months ended 30 June 2005 and 30 June 2004 were based on the unaudited loss of approximately RMB4,829,000 (three months ended 30 June 2004: loss attributable to shareholders of approximately RMB4,040,000) and total shares in issue of 710,000,000 shares (three months ended 30 June 2004: 710,000,000 shares) during the three months ended 30 June 2005.

The calculation of the loss per share for the six months ended 30 June 2005 and 30 June 2004 were based on the unaudited loss of approximately RMB9,779,000 (six months ended 30 June 2004: loss attributable to shareholders of approximately RMB8,139,000) and total shares in issue of 710,000,000 shares (six months ended 30 June 2004: 710,000,000 shares) during the six months ended 30 June 2005.

Diluted loss per share have not been calculated for the three months and six months ended 30 June 2005 and 2004 respectively as there were no dilutive potential ordinary shares during those periods.

8. **Capital expenditure**

	<b>Leasehold land payments RMB'000</b>	<b>Unaudited Fixed assets RMB'000</b>	<b>Technical Know-how RMB'000</b>	<b>Deferred development costs RMB'000</b>
<b>Cost</b>				
At 1 January 2005	9,239	54,322	12,442	21,051
Additions	—	1,119	800	—
Disposals	<u>—</u>	<u>(267)</u>	<u>—</u>	<u>—</u>
At 30 June 2005	<u>9,239</u>	<u>55,174</u>	<u>13,242</u>	<u>21,051</u>
<b>Accumulated amortisation</b>				
At 1 January 2005	269	10,956	6,056	3,833
Charge for the period	53	2,104	1,497	909
Disposals	<u>—</u>	<u>(238)</u>	<u>—</u>	<u>—</u>
At 30 June 2005	<u>322</u>	<u>12,822</u>	<u>7,553</u>	<u>4,742</u>
<b>Net book value</b>				
At 30 June 2005	<u>8,917</u>	<u>42,352</u>	<u>5,689</u>	<u>16,309</u>

9. **Trade receivables**

Details of the aging analysis are as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2005</b> <i>RMB'000</i>	Audited 31 December 2004 <i>RMB'000</i>
Current to 30 days	976	268
31 days to 60 days	—	303
61 days to 90 days	209	252
Over 90 days but less than one year	579	1,063
Over one year	<u>2,382</u>	<u>2,229</u>
	4,146	4,115
Provision	<u>(2,251)</u>	<u>(2,251)</u>
	<u><u>1,895</u></u>	<u><u>1,864</u></u>

Customers are generally granted credit terms of 90 days

10. **Trade payables**

Details of the aging analysis are as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2005</b> <i>RMB'000</i>	Audited 31 December 2004 <i>RMB'000</i>
Current to 30 days	520	1,851
31 days to 60 days	—	19
61 days to 90 days	—	—
Over 90 days but less than one year	24	73
Over one year	<u>180</u>	<u>1,117</u>
	<u><u>724</u></u>	<u><u>3,060</u></u>

11. **Loans from municipal government authorities**

The loans from municipal government authorities are repayable as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2005</b> <b>RMB'000</b>	Audited 31 December 2004 <i>RMB'000</i>
Within one year	<u><b>1,650</b></u>	<u>1,650</u>

12. **Related party transactions**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operation decisions.

The Group had no significant related party transactions during the six-month period ended 30 June 2005.

By Order of the Board  
**Wang HaiBo**  
*Chairman*

As at the date thereof, the Board comprises:

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

Shanghai, the PRC  
10 August, 2005

*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.*

\* *For identification purpose only*