



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)

INTERIM RESULTS REPORT

For the six months ended 30 June 2008

* *For identification purpose only*

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 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 Board hereto presents the unaudited consolidated interim results of the Company together with its subsidiaries (collectively the “Group”) for the six months ended 30 June 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review for the six months ended 30 June 2008

For the six months ended 30 June 2008, the Group recorded a turnover of approximately RMB14,680,000, comparing to a turnover of approximately RMB7,001,000 for the same period in 2007. This represents an increase of 110%.

The total turnover of the Group for the first half of 2008 was entirely derived from the sale of medical products and the provision of related ancillary services. No technology transfer income was recognized during the period under review. The total turnover of the same period last year also came from the sale of medical products and the provision of related ancillary services.

In the first half of 2008, revenue from both the sale of medical diagnostic reagents and Down’s Syndrome antenatal screening system has increased from the same period in 2007. Sale of the new product, Aminolevulinic Acid Hydrochloride (ALA) (鹽酸氨基酮戊酸), which the Group had launched to the market, has contributed significantly to the increase of total turnover. Income from the provision of ancillary technology services has also largely increased from the same period in 2007.

For the six months ended 30 June 2008, cost of sales of the Group was approximately RMB5,531,000, comparing to RMB4,186,000 for the same period in 2007. Gross profit margin has grown to 62% from 40% for that of the same period in 2007.

Within the period under review, operating loss of the Group was approximately RMB12,784,000, compared to RMB14,740,000 for that of last year, which represents a decrease of 13%. The various expenses presented before operating loss, research and development (R&D) costs, distribution and marketing costs, and administrative expenses have increased from the same period last year, respectively, whereas other income has also increased from the same period in 2007.

A loss attributable to shareholders of the Company of approximately RMB13,178,000 was recorded in the unaudited interim consolidated income statements for the six months ended 30 June 2008, whereas the loss attributable to shareholders of the Company for the same period in 2007 was RMB15,142,000, representing a decrease of 13%.

BUSINESS REVIEW

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

During the period under review, the Group has been making progress in the areas of R&D and commercialization pursuing the projected plans.

In the area of R&D, the Group has proceeded with the clinical studies of several projects that have been approved to enter clinical research.

With regard to patents, the Group has always been endeavoring in protecting the intellectual property rights of its innovative drugs and R&D achievements. Within the period under review, the Group has applied for 2 invention patents, and has been granted 3 design patents.

In respect of commercialization, since ALA (鹽酸氨酮戊酸), which is used for the treatment of dermal HPV infectious disease and proliferative disease as represented by Condyloma acuminata, has been launched for sale, it has attracted high level of attention from dermatologists all over the country. The Company has selected 20 economically more developed provinces, such as Beijing, Shanghai, Guangdong, Zhejiang, Jiangsu and Shandong, as the first stage market developing area. 200 large-scale comprehensive hospitals and large-scale specialist dermal hospitals have been aimed as the target clients. Market exploitation of 130 target clients has been completed. Sales revenue of the product has been increasing steadily.

Reconstruction of the production sites for Duxorubicin liposome (鹽酸多柔比星脂質體) has been completed. Approval to the drug by SFDA is being expected. Market exploitation for the product has been carried out.

FUTURE PROSPECTS

The Group has accumulated extensive experiences in R&D, and has taken a leading position in the pharmaceutical industry in the PRC. In the future, the Group will continue devoting efforts to R&D on projects with proprietary intellectual property rights. In particular, drugs for the treatment of dermal diseases and tumors will be of the most importance.

In respect of commercialization, the Group has realized production and sales on diagnostic reagents, Down's Syndrome antenatal screening system, and ALA, which is used for the treatment of dermal diseases. The Group has successfully accomplished the transformation from pure R&D to a combination of R&D and commercialization, which combines the various parts of the Group containing R&D, production, selling and marketing into an integrated system. The Group will be able to progress to a better development stage.

DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

CHARGE ON ASSETS

On 10 March 2006 and 23 June 2006, the Group put its real estate property in pledge to obtain an interest-free loan granted by "Technology and Education Promoting Shanghai" project, and a full-interest-subsidy loan given by Pudong "Wise-eye project" respectively. The mortgaging period depends on the time to redemption of the loans.

BANKING FACILITIES

Aided by the "Technology and Education Promoting Shanghai" project, the Group took a loan of RMB11,000,000 and a loan of RMB10,000,000 on 12 April 2006 and 6 July 2007, respectively. Both of the two loans are due for repayment on 31 December 2011. The loan is interest-free if it is fully repaid before 31 December 2009. Certain interest has to be paid if the loan is repaid between 1 January 2010 to 31 December 2011.

Assisted by the Pudong "Wise-eye project", the Group took a bank loan of RMB20,000,000 on 12 July 2006 which are due for repayment on 10 July 2009. Full amount of the interest of the loan is subsidized by the Pudong New Area government.

Aided by “Jiangsu Technology Results Transfer Project”, a subsidiary of the Group, Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. (“Taizhou Pharmaceutical”), took a loan of RMB10,000,000 from government authorities on 28 February 2008. The loan is unsecured and interest-free.

MATERIAL INVESTMENT

The Company made an announcement on 7 March 2008 that it would cooperate with a wholly owned subsidiary of Zhangjiang Hi-Tech Park Development Co., Ltd. to construct the industrial space next to the Company’s existing site. This is a connected and discloseable transaction, which has been approved on the Extraordinary General Meeting held on 23 May 2008.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operating and investing activities with internally generated financial resources, proceeds from the listing of the Company’s shares on the Hong Kong GEM Board in August 2002 and research grants, interest-free and interest-subsidized commercial loans supported by the government authorities. As at 30 June 2008, the Group had outstanding interest-free loans from government authorities of RMB32,650,000, of which RMB11,650,000 is unsecured, and an outstanding secured bank loan of RMB20,000,000 with interest fully subsidized.

As at 30 June 2008, the Group had a bank deposit, net cash and cash equivalent balance of approximately RMB60,163,000.

The Group’s gearing ratio at 30 June 2008 was 0.92 (31 December 2007: 0.85) which is calculated based on the Group’s total liabilities of RMB71,945,000 (31 December 2007: RMB59,336,000) and capital and reserves attributable to shareholders of the Company of RMB78,135,000 (31 December 2007: RMB70,058,000).

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.

EMPLOYEES AND SALARIES

As at 30 June 2008, the Group had a total of 210 employees, comparing with 186 employees as at 30 June 2007. Staff costs including directors' remuneration for the six months ended 30 June 2008 and 2007 were RMB11,039,000 and RMB9,443,000 respectively. 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 social welfare plans, are also provided to employees.

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

As at 30 June 2008, the interests (including interests in shares and / or short positions) of the Directors, the Chief Executive and the Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, (a) as notified to the Company and the Stock Exchange pursuant to: Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO"); (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Name of Directors	Class of shares	Number of 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 2008, 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	30,636,286 (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, or the management shareholders of the Company, nor their respective associates had any interest in a business which competes or may compete with the business of the Group.

Shanghai Pharmaceutical Co., Ltd.

Investee company	Nature of business	Shareholding interests
Shanghai Malu Pharmaceutical Co., Ltd. (上海馬陸制藥有限公司)	Drug manufacturing	87%
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)	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)	R&D of drugs	100%

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)	Drug manufacturing	80.55%

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%

SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2008, 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 2008.

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 2008.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the management team of the Company. The audit committee reviewed the interim report for the six months ended 30 June 2008 before proposing to the Board for approval.

CORPORATE GOVERNANCE

The Board of Directors has reviewed the documents relating to corporate governance policies adopted by the Company and considered that it had complied with most of the principles and codes set out in the 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 deviated 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 deviated from the Code:

- Though the roles of Chairman and General Manager are separate, the two positions are still taken by one person. Considering that the scope of the Company is relatively small, with its business mainly in the research, production and sales of innovative drugs, and that it has not completely stepped out of the venture period for the time being, also for the sake of management efficiency, the Board holds the point that the Chairman and the General Manager taken by one person is beneficial for the Company's development at the present stage. Along with the development of the Company, the Board will consider the segregation of Chairman and the General Manager.

CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Unaudited		Unaudited	
		Three months ended 30 June		Six months ended 30 June	
		2008	2007	2008	2007
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	3	8,138	3,486	14,680	7,001
Cost of sales		(3,359)	(1,845)	(5,531)	(4,186)
Gross profit		4,779	1,641	9,149	2,815
Other income		1,825	550	2,663	1,706
Research and development costs		(5,477)	(4,376)	(9,451)	(7,809)
Distribution and marketing costs		(5,439)	(3,917)	(9,835)	(6,571)
Administrative expenses		(2,194)	(2,350)	(5,225)	(4,789)
Other operating expenses		(36)	(38)	(85)	(92)
Operating loss	4	(6,542)	(8,490)	(12,784)	(14,740)
Finance costs		(344)	(218)	(685)	(574)
Share of results of an associate		—	183	—	(313)
Loss before income tax		(6,886)	(8,525)	(13,469)	(15,627)
Income tax	5	—	—	—	—
Loss for the period		(6,886)	(8,525)	(13,469)	(15,627)
Attributable to:					
Shareholders of the Company		(6,665)	(8,350)	(13,178)	(15,142)
Minority interests		(221)	(175)	(291)	(485)
		(6,886)	(8,525)	(13,469)	(15,627)
Basic loss per share for loss attributable to the shareholders of the Company (RMB)	7	(0.0094)	(0.0118)	(0.0186)	(0.0213)

CONSOLIDATED INTERIM BALANCE SHEET

		Unaudited	Audited
		30 June	31 December
		2008	2007
	<i>Note</i>	RMB'000	RMB'000
Non-current assets			
Leasehold land payments	8	11,053	11,174
Property, plant and equipment	8	54,668	55,879
Technical know-how	8	378	1,011
Deferred development costs	8	3,626	4,784
Investment in an associate		—	—
Deferred income tax assets		5,804	5,804
Available-for-sale investments		3,420	—
		<u>78,949</u>	<u>78,652</u>
Current assets			
Inventories		9,701	8,654
Trade receivables	9	7,629	5,755
Other receivables, deposits and prepayments		1,765	674
Amount due from a shareholder		136	362
Term deposits in bank with maturities of three to twelve months		—	10,000
Cash and cash equivalents		60,163	26,280
		<u>79,394</u>	<u>51,725</u>
Total assets		<u>158,343</u>	<u>130,377</u>

		Unaudited	Audited
		30 June	31 December
		2008	2007
	<i>Note</i>	RMB'000	RMB'000
Non-current liabilities			
Borrowings		20,000	20,000
Loans from government authorities	11	31,000	21,000
		<u>51,000</u>	<u>41,000</u>
Current liabilities			
Trade payables	10	1,514	1,117
Other payables and accruals		6,262	10,211
Deferred revenue		10,019	3,858
Loans from government authorities	11	1,650	1,650
Amount due to a shareholder		1,500	1,500
		<u>20,945</u>	<u>18,336</u>
Total liabilities		<u>71,945</u>	<u>59,336</u>
Capital and reserves attributable to shareholders of the Company			
Share capital		71,000	71,000
Reserves		7,135	(942)
		<u>78,135</u>	<u>70,058</u>
Minority interests		<u>8,263</u>	<u>983</u>
Total equity		<u>86,398</u>	<u>71,041</u>
Total equity and liabilities		<u>158,343</u>	<u>130,377</u>
Net current assets		<u>58,449</u>	<u>33,389</u>
Total assets less current liabilities		<u>137,398</u>	<u>112,041</u>

CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Unaudited Six months ended 30 June 2008 RMB'000	Unaudited Six months ended 30 June 2007 RMB'000
Operating activities		
Cash used in operations	(8,381)	(8,622)
Interest paid	(685)	(574)
Interest received	54	—
	<hr/>	<hr/>
Net cash used in operating activities	(9,012)	(9,196)
Investing activities		
Purchase of property, plant and equipment	(2,766)	(4,785)
Purchase of technical know-how	—	(105)
Purchase of available-for-sale investments	(4,594)	(178)
Withdrawal/(increase) of term deposits with maturities of three to twelve months	10,000	(10,000)
Interest received from term deposits with maturities of three to twelve months	213	246
Proceeds from disposal of property, plant and equipment	85	96
Proceeds from disposal of available-for-sale investments	15	383
	<hr/>	<hr/>
Net cash gain/(used) in investing activities	2,953	(14,343)
Financing activities		
Loan from government authorities	10,000	—
Capital injection from minority equity holder	30,000	—
	<hr/>	<hr/>
Net cash generated from financing activities	40,000	—
Net increase/(decrease) in cash and cash equivalents		
	33,941	(23,539)
Cash and cash equivalents at beginning of the period	26,280	44,180
Exchange loss on cash and cash equivalents	(58)	—
	<hr/>	<hr/>
Cash and Cash equivalents at end of the period	60,163	20,641
	<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

Unaudited

	Attributable to shareholders of the Company				Minority interests	Total
	Share capital	Capital accumulation reserve	Statutory common reserve fund	Accumulated losses		
	<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 2007	71,000	115,014	2,829	(89,235)	2,089	101,697
Loss for the period	—	—	—	(15,142)	(485)	(15,627)
Balance at 30 June 2007	<u>71,000</u>	<u>115,014</u>	<u>2,829</u>	<u>(104,377)</u>	<u>1,604</u>	<u>86,070</u>
Balance at 1 January 2008	71,000	115,014	2,829	(118,785)	983	71,041
Capital contribution to a subsidiary by minority interests (a)	—	22,359	—	—	7,641	30,000
Unrealised loss on available-for-sales investments	—	(1,104)	—	—	(70)	(1,174)
Loss for the period	—	—	—	(13,178)	(291)	(13,469)
Balance at 30 June 2008	<u>71,000</u>	<u>136,269</u>	<u>2,829</u>	<u>(131,963)</u>	<u>8,263</u>	<u>86,398</u>

- (a) The Group applied a policy of treating transactions with minority interests as transactions with equity owners of the Group. For minority interests' capital contribution to a subsidiary which did not result in the change of control, the difference between the capital contributed and the relevant share of the carrying value of net assets of the subsidiary is recorded in capital accumulation reserve.

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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%, 65% and 90.91% in its subsidiaries Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. (“Morgan-Tan”), Shanghai Ba Dian Medicine Co., Ltd. (“Ba Dian”) and Taizhou pharmaceutical, respectively.

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

2. Accounting policies and basis of preparation

The unaudited interim financial information of the Group has been prepared in accordance with IAS 34. The accounting policies adopted in preparing the unaudited consolidated financial information for the six months ended 30 June 2008 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

The unaudited consolidated financial information includes the financial information of the Company and its subsidiaries made up to 30 June. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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 2008			Unaudited three months ended 30 June 2007		
	Research and development activities RMB'000	Sales of medical products and the provision of related ancillary services RMB'000	Total RMB'000	Research and development activities RMB'000	Sales of medical products and the provision of related ancillary services RMB'000	Total RMB'000
Turnover	<u>—</u>	<u>8,138</u>	<u>8,138</u>	<u>—</u>	<u>3,486</u>	<u>3,486</u>
Segment loss	(4,335)	(660)	(4,995)	(4,122)	(2,276)	(6,398)
Unallocated income			338			78
Unallocated loss			<u>(2,229)</u>			<u>(2,205)</u>
Loss before income tax			(6,886)			(8,525)
Income tax			<u>—</u>			<u>—</u>
Loss for the period			<u>(6,886)</u>			<u>(8,525)</u>

	Unaudited three months ended 30 June 2008			Unaudited three months ended 30 June 2007		
	Research and development activities RMB'000	Sales of medical products and the provision of related ancillary services RMB'000	Total RMB'000	Research and development activities RMB'000	Sales of medical products and the provision of related ancillary services RMB'000	Total RMB'000
Turnover	—	14,680	14,680	—	7,001	7,001
Segment loss	(7,932)	(686)	(8,618)	(7,268)	(3,756)	(11,024)
Unallocated income			457			591
Unallocated loss			(5,308)			(5,194)
Loss before income tax			(13,469)			(15,627)
Income tax			—			—
Loss for the period			(13,469)			(15,627)

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 period 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. Operating loss

Operating loss is arrived at after (crediting) / charging the following items:

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Amortisation of government grants	(1,562)	(472)	(2,205)	(1,115)
Amortisation of leasehold land payments	61	34	121	68
Amortisation of deferred development costs	579	455	1,158	910
Amortisation of technical know-how	317	356	633	712
Depreciation of fixed assets	1,430	1,215	2,463	2,248
Research and development costs (note)	6,018	4,376	9,451	7,809
Staff costs (note)				
Housing subsidy	655	564	1,359	1,069
Retirement benefit costs	626	462	1,211	842
Social security costs	347	246	683	466
Wages and salaries	3,715	3,100	7,786	7,065
	5,343	4,373	11,039	9,443
Gain on disposal of available-for-sale investments	—	(167)	(15)	(167)

Note: Research and development costs mainly represents the employee benefit expenses 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 employee benefit expenses of technical staff are also included in the employee benefit expenses.

5. Income tax

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2008	2007	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Income tax	—	—	—	—

Effective from 1 January 2008, the Company and the subsidiaries shall determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law") as approved by the National People's Congress on 16 March 2007. Under the new CIT Law, the corporate income tax rate applicable to the Company will be gradually increased to 25% in a 5-year period from 2008 to 2012, however, the corporate income tax rate applicable to the subsidiaries will be changed to 25% with effect from 1 January 2008.

6. Dividends

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

7. Loss per share

The calculation of the basic loss per share for the three months ended 30 June 2008 and 30 June 2007 were based on the unaudited loss attributable to shareholders of the Company of approximately RMB6,665,000 (three months ended 30 June 2007: loss attributable to shareholders of the Company of approximately RMB8,350,000) and total shares in issue of 710,000,000 shares (three months ended 30 June 2007: 710,000,000 shares) during the three months ended 30 June 2008.

The calculation of the basic loss per share for the six months ended 30 June 2008 and 30 June 2007 were based on the unaudited loss attributable to shareholders of the Company of approximately RMB13,178,000 (six months ended 30 June 2007: loss attributable to shareholders of the Company of approximately RMB15,142,000) and total shares in issue of 710,000,000 shares (six months ended 30 June 2007: 710,000,000 shares) during the six months ended 30 June 2008.

Diluted loss per share have not been calculated for the three months or six months ended 30 June 2008 and 2007 respectively as there were no dilutive potential ordinary shares during those periods.

8. Capital expenditure

	Leasehold land payments <i>RMB'000</i>	Property, plant and equipment <i>RMB'000</i>	Technical know-how <i>RMB'000</i>	Deferred development costs <i>RMB'000</i>
Cost				
At 1 January 2008	11,988	79,773	9,047	14,365
Additions	—	1,270	—	—
Disposals	—	(267)	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2008	11,988	80,776	9,047	14,365
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated amortisation/ depreciation				
At 1 January 2008	814	23,894	8,036	9,581
Charge for the period	121	2,463	633	1,158
Disposals	—	(249)	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2008	935	26,108	8,669	10,739
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value				
At 30 June 2008	11,053	54,668	378	3,626
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Cost				
At 1 January 2007	11,988	74,738	8,942	14,365
Additions	—	2,435	105	—
Disposals	—	(122)	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2007	11,988	77,051	9,047	14,365
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated amortisation				
At 1 January 2007	572	18,687	6,648	7,471
Charge for the period	68	2,248	712	910
Disposals	—	(26)	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2007	640	20,909	7,360	8,381
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value				
At 30 June 2007	11,348	56,142	1,688	5,984
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

9. Trade receivables

	Unaudited	Audited
	30 June	31 December
	2008	2007
	RMB'000	RMB'000
Accounts receivables (<i>Note(a)</i>)	6,897	5,732
Notes receivable (<i>Note(b)</i>)	732	23
	<u>7,629</u>	<u>5,755</u>

(a) Details of the aging analysis are as follows:

	Unaudited	Audited
	30 June	31 December
	2008	2007
	RMB'000	RMB'000
Current to 30 days	3,392	3,417
31 days to 60 days	1,451	1,052
61 days to 90 days	872	349
Over 90 days but less than one year	1,105	975
Over one year	1,830	1,692
	<u>8,650</u>	<u>7,485</u>
Provision	(1,753)	(1,753)
	<u>6,897</u>	<u>5,732</u>

Customers are generally granted credit terms of 90 days.

(b) Notes receivable are all bank acceptance notes with maturities less than six months.

10. Trade payables

Details of the aging analysis are as follows:

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 <i>RMB'000</i>
Current to 30 days	628	440
31 days to 60 days	—	95
61 days to 90 days	84	—
Over 90 days but less than one year	460	78
Over one year	342	504
	<u>1,514</u>	<u>1,117</u>

11. Loans from government authorities

The loans from government authorities are repayable as follows:

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 <i>RMB'000</i>
Within one year	1,650	1,650
Within five years	31,000	21,000
	<u>32,650</u>	<u>22,650</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 made sales of medical products of RMB947,000 to Shanghai Pharmaceutical Co., Ltd., a shareholder of the Company during the six months ended 30 June 2008(2007: Nil).

By Order of the Board

Wang HaiBo

Chairman

As at the date thereof, the Board comprises:

Mr. Wang Hai Bo (*Executive Director*)

Mr. Su Yong (*Executive Director*)

Mr. Zhao Da Jun (*Executive Director*)

Ms. Fang Jing (*Non-executive Director*)

Mr. Zhou Jie (*Non-executive Director*)

Mr. Guo Jun Yu (*Non-executive Director*)

Mr. Hao Hong Quan (*Non-executive Director*)

Mr. Zhu Ke Qin (*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

6 August 2008