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 REPORT

For the six months ended 30 June 2011

* *For identification purpose only*

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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 Board here to present the unaudited consolidated interim results of the Company together with its subsidiaries (collectively the "Group") for the six months ended 30 June 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review for the six months ended 30 June 2011

For the six months ended 30 June 2011, the Group recorded a turnover of approximately RMB39,044,000, comparing to a turnover of approximately RMB35,898,000 for the same period in 2010. This represents an increase of 9%.

The total turnover for the six months ended 30 June 2011 came from the sale of medical products and the provision of related ancillary services and revenue recognized from exclusive distribution rights. The source of total turnover for the six months ended 30 June 2010 was the same as that of this period of 2011. The new product, ALA(艾拉®), which the Group launched during the second half of 2007, has now entered into a rapidly developed selling cycle, after over three year's market exploration and expansion of distribution channel.

For the six months ended 30 June 2011, the Group incurred cost of sales of approximately RMB10,845,000, comparing to RMB8,033,000 for the same period in 2010. Gross profit margin has reduced to 72% from 78% for the same period in 2010.

For the six months ended 30 June 2011, operating gain of the Group was approximately RMB641,000, comparing to RMB2,506,000 loss for the same period in 2010. Of the various costs and expenses presented before operating gain, research and development costs have decreased by 16%, distribution and marketing costs have increased by 39%, administrative expenses have increased by 42%, and other income has increased by 241%, respectively, comparing with those of the same period in 2010. The increase of distribution and marketing costs is mainly due to the increase of distribution and marketing costs of ALA which increased in line with its sales. The increase of administrative expenses is mainly contributed by the increase of employee payroll expenses, depreciation expenses of ALA equipment and land use tax. The mainly factors driving the increase of other income were the realization of income from the strategic cooperation agreement with Shanghai Pharmaceutical Holding Co., Ltd. ("Shanghai Pharmaceutical", a shareholder of the Company) for the cooperation on innovative pharmaceutical research and development amounted to RMB 8,409,314, and the reorganization of deferred government grants.

A gain attributable to the shareholders of the Company of approximately RMB3,353,000 was recorded in the unaudited consolidated statement of comprehensive income for the six months ended 30 June 2011, compared with a loss attributable to the shareholder of RMB2,301,000 for the same period in 2010.

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, Clinical trial phase III for Hemoporfin（海姆泊芬）, a photodynamic new drug for the treatment of Port Wine Stain has been completed, and application for the New Drug Certificate is under progress.

Pre-clinical study for ALA（鹽酸氨酮戊酸）,a photodynamic new drug for the treatment of cervical diseases infected by HPV has been completed, and application for clinical study has been submitted.

The Group obtained a grant of RMB3,500,000 from the Key National S&T Program, "Major New Drug Development", for its Deuteroporphyrin（多替泊芬）, a Photodynamic therapy drug for the treatment of tumors.

Pre-clinical study for rhTNFR(m):Fc (High bio-activity recombinant human TNF receptor 2-Fc fusion protein mutant高活性重組人腫瘤壞死因子受體突變體－Fe融會蛋白)for the treatment of arthritis has been completed, and application for clinical study is about to be submitted. Application for a PCT patent for the project has been made.

The Group's Nifeviroc（尼非韋羅） for the treatment of AIDS is in the process of clinical trial phase II.

The Group has been actively protecting its intellectual property rights (IPR) on its innovative medicines and research results. During the period under review, the Group granted 2 invention patents, including 1 Canada invention patent.

During February 2011, the Company has entered into a strategic cooperation agreement with Shanghai Pharmaceutical for the cooperation on innovative pharmaceutical research and development. Both parties will jointly share the risks of, and cooperate on, the research, development and commercialization of the relevant potential pharmaceuticals owned by the Company and its subsidiaries which are currently at various research stages. Refer to the Announcement of the Company dated 23 February 2011 and the circular of the Company dated 8 April 2011 for more details. The cooperation will make significant progress on the pharmaceutical research and development so that the commercialization can be realized as soon as possible. As a continuing connected transaction, the cooperation agreement has been approved on the AGM held on 27 May 2011.

In respect of commercialization, since the launch of ALA for the treatment of dermal HPV infectious disease and proliferative disease as represented by Condyloma acuminate, and Libod® for the treatment of tumors, sales revenue of the products has been increasing steadily. ALA has been approved as Shanghai Patent New Product and Libod® has been accredited as Shanghai Hi-Tech Result Transfer Project. In order to enhance the marketing capability and increase the sales of Libod®, the Group signed "the Sole Agency Agreement " with China NT Pharma Group Company Limited in February 2011, which replaced the exclusive distribution agreement with Nanjing Medical.

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 the area of commercialization, the Group has realized production and sales on diagnostic products, ALA and Libod® . The revenue has been increasing steadily. It is expected that the future sales will be increasing extensively. The Group has successfully accomplished the transformation from pure R&D to a combination of R&D and commercialization. An intact system of R&D, production, sales and marketing combined orderly has been formed. 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 2011 (2010: Nil).

CHARGE ON ASSETS

On 1 March 2006 and 6 July 2007, the Group put its leasehold land, plant and machinery in pledge to obtain an interest-free loan granted by "Technology and Education Promoting Shanghai" project. The mortgaging period depends on the time to redeem the loans.

On 23 October 2009, the Group put its leasehold land, plant and machinery in pledge to obtain a bank loan. The mortgaging period depends on the time to redeem the loans.

On 20 March 2011, the Group put its leasehold land in pledge to obtain a bank loan. The mortgaging period depends on the time to redeem 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 1 March 2006 and 6 July 2007, respectively. Both of the two loans are due for repayment on 31 December 2011. According to the loan contract, certain interest has to be paid if the loan is repaid between 1 January 2010 to 31 December 2011.

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 10 December 2010 which is due for repayment on 10 December 2013. The loan is unsecured.

On 23 October 2009 and 13 September 2010, the Group took two bank loans of RMB20,000,000 and RMB17,000,000, respectively. The former is to be repaid within three years on an equal amount basis, with the due dates being 22 October 2010, 2011 and 2012, respectively. The first repayment has been paid on 22 October 2010. Redemption date for the later is 12 September 2011.

Taizhou Pharmaceutical took a loan of RMB40,000,000 from Bank of Nanjing on 20 March 2011. The loan is secured and the interest rate is 5.375%. The loan is due for repayment on 21 March 2014 for RMB15,000,000 and on 21 March 2015 for RMB25,000,000.

MATERIAL INVESTMENT

The Company made an announcement on 7 March 2008 that it would cooperate with a wholly owned subsidiary of Shanghai 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 EGM held on 23 May 2008. The transfer is under progress as at 30 June 2011.

As at 30 June 2011, the plant in Taizhou is under construction.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations and investing activities with internally generated financial resources, proceeds from the listing of the Company's shares on the Hong Kong GEM Board in August 2002, and interest-free and interest-subsidized commercial loans supported by the municipal government authorities. As at 30 June 2011, the Group had outstanding loans RMB102,980,000, of which RMB11,650,000 is unsecured, and RMB 91,330,000 is secured bank loans or guaranteed by a third party company.

As at 30 June 2011, the Group had cash and cash equivalents of approximately RMB 141,368,000.

The Group's gearing ratio as at 30 June 2011 was 1.18 (31 December 2010: 0.97) which is calculated based on the Group's total liabilities of RMB168,808,000 (31 December 2010: RMB135,449,000) and capital and reserves attributable to shareholders of the Company of RMB142,591,000 (31 December 2010: RMB139,243,000).

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 2011, the Group had a total of 304 employees, comparing with 219 employees as at 30 June 2010. Staff costs including directors' remuneration for the six months ended 30 June 2011 and 2010 were RMB19,913,000 and RMB13,552,000 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 2011, 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 shares held	Capacity	Type of interest	Percentage in the respective class of share capital	Percentage 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 2011, 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 Industrial Investment (Holdings) Co., Ltd.	Domestic Shares	139,578,560(L)	Interest of controlled corporation	Corporate	27.26%	29.60%
	H Shares	70,564,000 (L)			35.64%	
Shanghai Pharmaceutical Holding Co., Ltd.	Domestic Shares	139,578,560 (L)	Beneficial Owner	Corporate	27.26%	29.60%
	H Shares	70,564,000 (L)			35.64%	
China GeneralTechnology (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)	Interest of controlled corporation	Corporate	5.98%	4.31%
Shanghai Fudan Asset Operating Limited	Domestic Shares	30,636,286 (L)	Beneficial Owner	Corporate	5.98%	4.31%

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

SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2011, 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 2011.

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 2011.

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 2011 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 adxopted 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.

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2011	2010	**2011**	2010
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	3	**29,582**	22,489	**39,044**	35,898
Cost of sales		**(8,090)**	(4,286)	**(10,845)**	(8,033)
Gross profit		**21,492**	18,203	**28,199**	27,865
Other income	4	**8,875**	2,701	**15,704**	4,605
Research and development costs		**(4,505)**	(6,367)	**(9,006)**	(10,757)
Distribution and marketing costs		**(18,421)**	(10,655)	**(25,650)**	(18,510)
Administrative expenses		**(4,703)**	(2,979)	**(8,009)**	(5,657)
Other operating expenses		**(575)**	(25)	**(597)**	(52)
Operating profit / (loss)	5	**2,163**	878	**641**	(2,506)
Finance costs		**(1,046)**	(757)	**(1,760)**	(1,356)
Profit / (Loss) before income tax		**1,117**	121	**(1,119)**	(3,862)
Income tax expense	6	**2,440**	—	**2,440**	—
Profit / (loss) for the period		**3,557**	121	**1,321**	(3,862)
Other comprehensive income					
Available-for-sale investments		**(5)**	—	**(5)**	—
Total comprehensive income/ (loss) for the year		**3,552**	121	**1,316**	(3,862)

	Note	Unaudited Three months ended 30 June **2011** *RMB'000*	2010 *RMB'000*	Unaudited Six months ended 30 June **2011** *RMB'000*	2010 *RMB'000*
Profit / (loss) attributable to:					
Shareholders of the Company		**4,516**	1,019	**3,353**	(2,301)
Non-controlling interests		**(959)**	(898)	**(2,032)**	(1,561)
		3,557	121	**1,321**	(3,862)
Total comprehensive income / (loss) attributable to:					
Shareholders of the Company		**4,511**	1,019	**3,348**	(2,301)
Non-controlling interests		**(959)**	(898)	**(2,032)**	(1,561)
		3,552	121	**1,316**	(3,862)
Basic and diluted earnings / (loss) per share for profit/ (loss) attributable to the shareholders of the Company (RMB)	8	**0.0064**	0.0014	**0.0047**	(0.0032)

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET

	Note	**Unaudited 30 June 2011 *RMB'000***	Audited 31 December 2010 *RMB'000*
Non-current assets			
Leasehold land payments	9	**35,315**	35,710
Property, plant and equipment	9	**84,048**	83,591
Technical know-how	9	**85**	95
Deferred development costs	9	**3,732**	4,131
Deferred income tax assets		**3,495**	1,055
		126,675	124,582
Current assets			
Inventories		**17,742**	15,735
Trade receivables	10	**26,402**	43,486
Other receivables, deposits and prepayments		**26,605**	25,696
Available-for-sale investments		**37**	143
Amount due from a shareholder		**—**	4,207
Cash and cash equivalents		**141,368**	90,305
		212,154	179,572
Total assets		**338,829**	304,154

	Note	**Unaudited 30 June 2011** *RMB'000*	Audited 31 December 2010 *RMB'000*
Non-current liabilities			
Borrowing	12	**46,660**	6,660
Loans from government authorities	13	**10,000**	10,000
		56,660	16,660
Current liabilities			
Trade payables	11	**3,959**	1,145
Other payables and accruals		**33,632**	32,498
Deferred revenue		**26,737**	27,326
Loans from government authorities	13	**22,650**	32,650
Amount due to a shareholder		**1,500**	1,500
Borrowings	12	**23,670**	23,670
		112,148	118,789
Total liabilities		**168,808**	135,449
Capital and reserves attributable to shareholders of the Company			
Share capital		**71,000**	71,000
Reserves		**71,591**	68,243
		142,591	139,243
Non-controlling interests		**27,430**	29,462
Total equity		**170,021**	168,705
Total equity and liabilities		**338,829**	304,154
Net current assets		**100,010**	60,783
Total assets less current liabilities		**226,681**	185,365

UNAUDITED INTERIM CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June 2011	Unaudited Six months ended 30 June 2010
	RMB'000	*RMB'000*
Operating activities		
Cash generated in operations	**25,306**	8,216
Interest paid	**(1,760)**	(1,356)
Interest received	**243**	132
Net cash generated in operating activities	**23,789**	6,992
Investing activities		
Purchase of property, plant and equipment	**(3,045)**	(983)
Purchase of shares from minority equity holder	**—**	(848)
Withdrawal of term deposits with maturities of three to twelve months	**(1,760)**	(2,679)
Proceeds from disposal of property, plant and equipment	**19**	86
Proceeds from disposal of available-for-sale investments	**2,060**	3,289
Net cash used in investing activities	**(2,726)**	(1,135)
Financing activities		
Net cash generated from financing activities	**30,000**	—
Net increase in cash and cash equivalents	**51,063**	5,857
Cash and cash equivalents at beginning of the period	**90,305**	86,898
Exchange gain / (loss) on cash and cash equivalents	**—**	—
Cash and Cash equivalents at end of the period	**141,368**	92,755

UNAUDITED INTERIM CONSOLIDATED 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		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2010	71,000	211,367	2,829	(149,507)	32,679	168,368
Comprehensive loss						
Loss for the period	—	—	—	(2,301)	(1,561)	(3,862)
Total comprehensive loss	—	—	—	(2,301)	(1,561)	(3,862)
Transactions with owners	—	—	—	—	—	—
Acquisition of minority interests (a)	—	(127)	—	—	(721)	(848)
Total transactions with owners	—	(127)	—	—	(721)	(848)
Balance at 30 June 2010	71,000	211,240	2,829	(151,808)	30,397	163,658
Balance at 1 January 2011	71,000	211,240	2,829	(145,826)	29,462	168,705
Comprehensive profit						
Profit for the period	—	—	—	3,353	(2,032)	1,321
Other comprehensive income						
Available-for-sale investment	—	(5)	—	—	—	(5)
Total comprehensive profit	—	(5)	—	3,353	(2,032)	1,316
Balance at 30 June 2011	71,000	211,235	2,829	(142,473)	27,430	170,021

(a) In January 2010, the Company entered into a share transfer agreement with Shanghai Zhangjiang (Group) Co., Ltd. ("SZCL") to acquire all SZCL's 31.25% interests in the Company's subsidiary Morgan-Tan. The consideration is RMB848,000. After the acquisition, Morgan-Tan became a wholly owned subsidiary of the Company. SZCL is the parent company of Shanghai Zhangjiang Hi-Tech Park Development Corp., one of the Company's shareholders.

SELECTED NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED 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 100%, 65% and 69.77% 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 statements of the Group have been prepared in accordance with ISA 34. The accounting policies adopted in preparing the unaudited consolidated financial statements for the six months ended 30 June 2011 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, unless otherwise stated.

The following new standards, amendments to standards and interpretations are mandatory for accounting periods on or after 1 January 2011.

IAS 32 (Amendment)	Classification of rights issue
IFRIC 19	Extinguishing financial liabilities with equity instruments
Amendment to IFRS 1	Limited exemption from comparative IFRS 7 disclosures for first-time adopters
IAS 24 (Revised)	Related party disclosures
Amendment to IFRIC 14	Prepayments of a minimum funding requirement

Third annual improvements project (2010) published in May 2010 by the IASB

The adoption of the above new standards, amendments to standards and interpretations did not have any significant impacts to the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective and have not been early adopted. The directors anticipate that adoption of these standards, amendments to standards and interpretations will not result in substantial changes to the Group's accounting policies.

IFRS 7 (Amendment)	Disclosures – Transfers of financial assets
IFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters
IAS 12 (Amendment)	Deferred tax: Recovery of underlying assets
IAS 1 (Amendment)	Presentation of financial statements
IFRS 9	Financial Instruments
IFRS 10	Consolidated financial statements
IFRS 11	Joint arrangements
IFRS 12	Disclosure of interests in other entities
IFRS 13	Fair value measurements
IAS 19 (Amendment)	Employee benefits

The unaudited consolidated financial statements include the financial statements 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 inter-company 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

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The directors consider the business from principal activities perspective.

	Unaudited three months ended 30 June 2011			Unaudited three months ended 30 June 2010		
	Research and development activities	**Sales of medical products and the provision of related ancillary services**	**Total**	Research and development activities	Sales of medical products and the provision of related ancillary services	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**—**	**29,582**	**29,582**	800	21,689	22,489
Segment (loss)/gain	**(2,681)**	**1,785**	**(896)**	(4,215)	6,748	2,533
Unallocated income			**6,005**			592
Unallocated loss			**(3,992)**			(3,004)
Gain before income tax			**1,117**			121
Income tax expense			**2,440**			—
Gain for the period			**3,557**			121

	Unaudited six months ended 30 June 2011			Unaudited six months ended 30 June 2010		
	Research and development activities	Sales of medical products and the provision of related ancillary services	Total	Research and development activities	Sales of medical products and the provision of related ancillary services	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	—	39,044	39,044	800	35,098	35,898
Segment (loss)/gain	(4,841)	1,263	(3,578)	(7,647)	8,555	908
Unallocated income			9,779			939
Unallocated loss			(7,320)			(5,709)
Loss before income tax			(1,119)			(3,862)
Income tax expense			2,440			—
Loss for the period			1,321			(3,862)

Note: Unallocated income and unallocated costs mainly represent other income received and general and administrative expenses incurred by the Group during the years that are not directly attributable to the principal activities.

There are no sales or other transactions between the operating segments.

4. Other income

The increase of other income was mainly due to the realization of income from the strategic cooperation agreement with Shanghai Pharmaceutical for the cooperation on innovative pharmaceutical research and development amounted to RMB 8,409,314.

5. Operating gain/(loss)

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

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amortisation of leasehold land payments	**197**	232	**395**	463
Less: amount capitalised in construction in progress	**(171)**	(171)	**(342)**	(342)
	26	61	**53**	121
Amortisation of deferred costs (included in 'Cost of sales')	**399**	337	**713**	673
Amortisation of technical know-how (included in 'Research and development costs')	**—**	—	**—**	—
Amortisation of technical know-how (included in 'Administrative expenses')	**4**	4	**10**	8
	4	4	**10**	8
Reversal of impairment of receivables	**307**	(15)	**307**	(15)
Write-down of inventories	**979**	221	**979**	442
Cost of inventories sold	**7,915**	3,677	**10,680**	7,683
Depreciation of property, plant and equipment	**1,266**	1,300	**2,563**	2,591
(Gains)/losses on disposal of property, plant and equipment	**16**	(65)	**16**	(48)
Operating lease rentals in respect of land and buildings	**56**	99	**113**	198
Research and development costs, excluding employee benefit expenses	**3,792**	4,904	**4,619**	6,955
Employee benefit expenses	**9,002**	6,201	**19,913**	13,522
Gains on disposal of available-for-sale investments	**(84)**	(318)	**(193)**	(516)
Marketing and sales promotion	**10,101**	7,114	**12,606**	10,585

6. Income tax

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Income tax	**2,440**	—	**2,440**	—

Under the Corporate Income Tax Law of the People's Republic of China, as the Company was certified as a New and High Technology Enterprise, it is entitled to a reduced income tax rate of 15%. The corporate income tax rate applicable to the subsidiaries is 25%. In 2009, the Company obtained an approval for an income tax incentive of two-year full exemption followed by a three-year 50% reduction, with year 2008 being the first tax-free year.

7. Dividends

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

8. Earnings / (loss) per share

The calculation of the basic earnings per share for the three months ended 30 June 2011 and 30 June 2010 were based on the unaudited gain attributable to shareholders of the Company of approximately RMB4,516,000 (three months ended 30 June 2010: gain attributable to shareholders of the Company of approximately RMB1,019,000) and total shares in issue of 710,000,000 shares (three months ended 30 June 2010: 710,000,000 shares) during the three months ended 30 June 2011.

The calculation of the basic earnings / (loss) per share for the six months ended 30 June 2011 and 30 June 2010 were based on the unaudited gain attributable to shareholders of the Company of approximately RMB3,353,000 (six months ended 30 June 2010: loss attributable to shareholders of the Company of approximately RMB2,301,000) and total shares in issue of 710,000,000 shares (six months ended 30 June 2010: 710,000,000 shares) during the six months ended 30 June 2011.

Diluted earnings / (loss) per share have not been calculated for the three months or six months ended 30 June 2011 and 2010 respectively as there were no dilutive potential ordinary shares during those periods.

9. Capital expenditure

	Unaudited			
	Leasehold land payments *RMB'000*	Property, plant and equipment *RMB'000*	Technical Know-how *RMB'000*	Deferred development costs *RMB'000*
Cost				
At 1 January 2011	37,356	119,895	3,822	7,286
Additions	—	3,045	—	—
Disposals	—	(201)	—	—
At 30 June 2011	37,356	122,739	3,822	7,286
Accumulated amortisation/ depreciation				
At 1 January 2011	1,646	36,305	3,727	3,155
Charge for the period	395	2,562	10	399
Disposals	—	(176)	—	—
At 30 June 2011	2,041	38,691	3,737	3,554
Net book value				
At 30 June 2011	35,315	84,048	85	3,732
Cost				
At 1 January 2010	44,154	107,752	3,822	7,286
Additions	—	6,523	—	—
Disposals	—	(340)	—	—
At 30 June 2010	44,154	113,935	3,822	7,286
Accumulated amortisation/ depreciation				
At 1 January 2010	1,355	33,418	3,712	1,721
Charge for the period	463	2,591	8	673
Disposals	—	(302)	—	—
At 30 June 2010	1,818	35,707	3,720	2,394
Net book value				
At 30 June 2010	42,336	78,228	102	4,892

10. Trade receivables

	Unaudited 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
Accounts receivables *(Note(a))*	**22,878**	37,811
Notes receivable *(Note(b))*	**3,524**	5,675
	26,402	43,486

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

	Unaudited 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
current to 30 days	**13,977**	27,437
Overdue 31 days to 60 days	**4,776**	6,619
Overdue 61 days to 90 days	**1,582**	577
Overdue over 90 days but less than one year	**3,420**	3,330
Overdue over one year	**76**	494
	23,831	38,457
Provision	**(953)**	(646)
	22,878	37,811

Customers are generally granted credit terms of 90 days.

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

11. Trade payables

Details of the aging analysis are as follows:

	Unaudited 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
Current to 30 days	**2,881**	272
31 days to 60 days	**610**	223
61 days to 90 days	**12**	205
Over 90 days but less than one year	**256**	36
Over one year	**200**	409
	3,959	1,145

12. Borrowings

	Unaudited 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
Non-current		
Long-term bank borrowings, secured	**53,330**	13,330
Less: current portion	**(6,670)**	(6,670)
	46,660	6,660
Current		
Short-term bank borrowings, secured	**17,000**	17,000
Current portion of long-term bank borrowings, secured	**6,670**	6,670
	23,670	23,670

Long-term bank borrowings of RMB13,330,000 as of 30 June 2011 bear an interest rate of 5.24% annually, among which RMB6,670,000 are due for repayment on 22 October 2011 and RMB 6,660,000 are due for repayment on 22 October 2012. The borrowings were secured by the leasehold land, plant and machinery of the Company.

Long-term bank borrowings of RMB 40,000,000 as of 20 March 2011 bear an interest rate of 5.375% annually, are due for repayment on 21 March 2014 for RMB15,000,000 and on 21 March 2015 for RMB25,000,000. The borrowings were secured by the leasehold land of the company.

Short-term bank borrowings of RMB17,000,000 as of 30 June 2011 are due for repayment on 2 September 2011, and bear an interest rate of 5.73% annually. The borrowings are guaranteed by a third party company. Such guarantee was secured by the pledge of new drug certificates and the contract of exclusive rights granted to a customer.

13. Loans from government authorities

The loans from government authorities are repayable as follows:

	Unaudited 30 June 2011 ***RMB'000***	Audited 31 December 2010 *RMB'000*
Current	**22,650**	32,650
Non-current	**10,000**	10,000
	32,650	42,650

14. Related party transactions

The Group made sales of medical products of RMB3,347,692 to Shanghai Pharmaceutical a shareholder of the Company during the six months ended 30 June 2011 (six months ended 30 June 2010: RMB43,000).

For the six months ended 30 June 2011, the group has totally received RMB 15,065,000 from Shanghai Pharmaceutical for the strategic cooperation agreement on innovative pharmaceutical research and development, and recognized income amounted to RMB 8,409,314 which is receivables from Shanghai Pharmaceutical.

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. Hao Hong Quan *(Non-executive Director)*
Mr. Zhu Ke Qin *(Non-executive Director)*
Mr. Ge Jian Qiu *(Non-executive Director)*
Ms. Ke Ying *(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

9 August 2011