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)

Annual Results Announcement
For the year ended 31st December 2004

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

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This announcement, 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 announcement 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 announcement misleading; and 3. all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

AUDITED RESULTS

The board of directors of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004 as follows:

	Year ended 31 December	
	2004	**2003**
	RMB'000	*RMB'000*
Turnover	10,567	8,131
Cost of sales	(8,325)	(6,155)
Gross profit	2,242	1,976
Other income	6,588	7,779
Research and development costs	(18,440)	(17,970)
Distribution costs	(2,360)	(2,074)
Administrative expenses	(10,952)	(9,261)
Other operating expenses	(1,524)	(656)
Operating loss	(24,446)	(20,206)
Share of results of associate before taxation	(2,240)	(1,381)
Loss before taxation	(26,686)	(21,587)
Taxation	258	2,802
Loss after taxation	(26,428)	(18,785)
Minority interests	1,527	438
Loss attributable to shareholders	(24,901)	(18,347)
Dividends	—	—
Basic loss per share (RMB)	(0.0351)	(0.0258)

1 BACKGROUND INFORMATION

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 trading of the newly issued 198,000,000 ordinary shares ("H shares") of RMB0.10 each of the Company commenced 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 reagents and the provision of related ancillary services in the PRC.

2 PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements are prepared under the historical cost convention, except that the available-for-sale investments are shown at fair value.

The consolidated financial statements include the financial statements of the Company and its subsidiaries. A subsidiary is an entity in which the Group has an interest of more than one half of the voting rights or otherwise has power to 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 unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for using the equity method in the Company's balance sheet. Equity accounting involves recognising in the income statement the Company's share of the subsidiaries' profit or loss for the year. The Company's interest in the subsidiaries is carried in the balance sheet at amount that reflects its share of the net assets of the subsidiaries and includes goodwill on acquisition.

3 TURNOVER

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 diagnostic reagents and the provision of related ancillary services in the PRC. Turnover recognised during the year are as follows:

	2004	**2003**
	RMB'000	*RMB'000*
Technology transfer revenue	4,200	—
Sales of diagnostic reagents and the provision of related ancillary services	6,367	8,131
	10,567	8,131

4 OPERATING LOSS

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

	2004	**2003**
	RMB'000	*RMB'000*
Amortisation of leasehold land payments	107	108
Amortisation of deferred development costs (included in 'Cost of sales')	1,331	556
Amortisation of technical know-how (included in 'Research and development costs')	1,898	1,272
Amortisation of technical know-how (included in 'Administrative expenses')	194	384
	2,092	1,656
Auditors' remuneration	902	908
Provision for bad debts	261	6
Impairment of technical know-how	1,000	—
Cost of inventories sold	6,994	5,599
Depreciation of fixed assets	3,915	3,396
Less: amount capitalised in deferred development costs	(32)	(503)
	3,883	2,893
Loss on disposal of fixed assets	57	46
Operating lease rentals in respect of land and buildings	113	56
Research and development costs (note (a))	18,440	17,970
Unrealised loss/(profit) on available-for-sale investments	181	(363)
Realised profit on disposal of available-for-sale investments	(367)	(319)
Provision for inventories obsolescence	—	74

(a): Research and development costs mainly represent the salary costs of technical staff involved and the consumables used in the research and development activities which did not satisfy the criteria for capitalisation as an asset. The salary costs of technical staff are also included in the staff costs disclosed in Note 6 below.

5 TAXATION

	2004 *RMB'000*	2003 *RMB'000*
Current taxation	—	—
Deferred tax credit *(note 19)*	(258)	(2,802)
Share of tax of an associate	—	—
	(258)	(2,802)

The Company is subject to the Income Tax Law of the PRC and the normal income tax rate applicable is 33%. As the Company is recognised 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%. Accordingly, the Company is subject to Income Tax at a rate of 15%.

The subsidiaries and an associate are subject to the Income Tax Law of the PRC and the income tax rate applicable is 33%.

The tax on the Group's loss before taxation differs from the theoretical amount that would arise using the tax rate in the PRC applicable to the Group as follows:

	2004 *RMB'000*	2003 *RMB'000*
Loss before taxation	(26,686)	(21,587)
Tax calculated at a tax rate of 15%	(4,003)	(3,238)
Effect of different tax rate in the subsidiaries and an associate	(1,236)	(441)
Effect of unrecognised tax losses of the Group	4,936	1,175
Utilisation of previously unrecognised tax losses of a subsidiary	—	(366)
Expenses not deductible for tax purpose	45	68
Tax charge	(258)	(2,802)

6 DIVIDENDS

At the meeting on 29 March 2005, the Board of Directors recommended not to distribute any dividends in respect of the year ended 31 December 2004.

At the shareholders' Annual General Meeting on 25 June 2004, it was resolved not to distribute any dividends in respect of the year ended 31 December 2003.

7 LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2004 *RMB'000*	2003 *RMB'000*
Loss attributable to shareholders	(24,901)	(18,347)
Weighted average number of ordinary shares in issue (thousands)	710,000	710,000
Basic loss per share (RMB)	(0.0351)	(0.0258)

Diluted loss per share has not been calculated for the years ended 31 December 2004 and 31 December 2003 as there were no dilutive potential ordinary shares during the years then ended.

8 RESERVES

	Capital accumulation reserve *RMB'000*	Statutory common reserve fund *RMB'000*	Statutory common welfare fund *RMB'000*	Retained earnings/ (Accumulated losses) *RMB'000*	Total *RMB'000*
At 1 January 2003	115,014	1,709	1,120	4,054	121,897
Loss for the year	—	—	—	(18,347)	(18,347)
At 31 December 2003	115,014	1,709	1,120	(14,293)	103,550
Loss for the year	—	—	—	(24,901)	(24,901)
At 31 December 2004	115,014	1,709	1,120	(39,194)	78,649

(a) The balance in the capital accumulation reserve represents share premium arising from the issue of shares at a price in excess of their par value. Expenses related to the issue of shares are accounted for as a deduction of the capital accumulation reserve.

(b) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders. The statutory common reserve fund shall only be used to make good previous years' losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution of shareholders' general meeting, the Company may transform its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital.

(c) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net profit, as determined under the PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the Company's employees. This fund is non-distributable other than in liquidation.

(d) In accordance with the Company's Articles of Association, the Company declares dividends based on the lower of retained earnings as reported in accordance with the PRC accounting regulations and that reported in accordance with IFRS. According to the statutory financial statements prepared in accordance with the PRC accounting regulations and the financial statements prepared in accordance with IFRS, there was no distributable reserve as of 31 December 2004 (2003: nil).

MANAGEMENT DISCUSSION AND ANALYSIS AND FINANCIAL REVIEW

The following discussion and analysis of the Group's financial and operational position should be read in conjunction with the consolidated financial statements and the related notes to the consolidated financial statements.

TURNOVER

The Group's consolidated turnover for the year ended 31 December 2004 amounted to approximately RMB10,567,000, compared to RMB8,131,000 for the same period in 2003. During the year under review, approximately RMB4,200,000 (or 40% of the total turnover) was derived from the income of technology transfer, and the rest of approximately RMB6,367,000 (or 60% of the total turnover) came from the sale of diagnostic products and the provision of the ancillary services. In contrast, the total turnover for the year 2003 was only generated from the sale of diagnostic products and the provision of the ancillary services.

REVENUE FROM TECHNOLOGY TRANSFER

Comparing to a nil income from technology transfer for the year 2003, a total income of approximately RMB4,200,000 was recognized from technology transfer in 2004. In March 2004, the Group entered into a technology transfer contract with a Taiwan based pharmaceutical company for a total consideration of RMB7,500,000. The economic benefits flowed into the Group summed up to RMB2,000,000 in return for the work done for the first two stages as stipulated in the terms of the contract. A subsidiary of the Group, Ba Dian, signed a technology development contract with a Singaporean pharmaceutical company for a proceeds of RMB4,500,000, and has obtained an income of RMB200,000 within the year under review. Another subsidiary of the Group, Morgan-Tan, entered into an agreement to transfer a technology Mycophenolate Mofetil to a Shandong based medical company for a consideration of RMB4,500,000. The inflow of economic benefits to the Group amounted to RMB2,000,000 as a result of the completion of the tasks by stages.

REVENUE FROM SALE OF DIAGNOSTIC PRODUCTS AND PROVISION OF RELATED ANCILLARY SERVICES

Revenue from the sale of diagnostic products and the provision of ancillary services reduced by 22% for the year ended 31 December 2004, in comparison with that of last year. This is mainly because the Group has undergone a crucial transformation process during the year under review. Its core business has evolved from pure research and development ("R&D") to the combination of R&D and commercialization. The management therefore modified the corresponding marketing strategies, which placed more emphasis on cash returns from accounts receivables in selling the traditional diagnostic products with lower profitability, even at the expense of giving up some short-term upfront earnings. However, more resources have been devoted to the new products with growth potential and profit margins, in order to support their market entries, with an aim to competing for a substantial market share at the early stage of commercialization.

COST OF SALES

In comparison to RMB6,155,000 for the same period last year, the cost of sales for the year ended 31 December 2004 was RMB8,325,000, raised by 35% from that of last year. This has been growing in line with the enhancing turnover.

OPERATING LOSS

Operating loss for the year ended 31 December 2004 was approximately RMB24,446,000, whereas the figure was RMB20,206,000 in 2003. Several factors contributed to the declining situation. Firstly, the interest income as reflected in other income was cut by half when compared with the same period in the previous year, for the reason that large sums of capital has been invested in R&D, resulting in a reduction of cash deposited in banks. Secondly, the distribution costs increased by 14%, due to the fact mentioned above, that the Group employed relatively more resources on the launch of new products. Thirdly, the Group purchased a technology used in developing and manufacturing of new products during the year, and amortization of this technical know-how boosted administrative expenses by 18% over last financial year. And lastly, the increase in other operating expenses were caused by a provision for impairment of a technical know-how Oxymatrine of RMB1,000,000, which was the impairment loss provided for by the management from a cautious perspective, taking into account the uncertainty of the project's future research and development.

LOSS ATTRIBUTABLE TO SHAREHOLDERS

A loss attributable to shareholders of RMB24,901,000 was recorded for the year ended 31 December 2004, compared with RMB18,347,000 for the same period in 2003. The increase in operating loss was mainly caused by the increase in costs and expenses, and the decrease in other revenues. However, the Directors believe that with achievements in the embarkation of the new products and continuous improvement on commercialization of the Group, operating returns and commercialization will be obtained in the next financial year.

IMPAIRMENT OF ASSETS

After the assessment of the fair value of the Group's fixed assets, technical know-how, deferred development costs and other non-current assets, no other impairment of assets has been noted as at 31 December 2004, apart from the impairment loss on intangible asset of RMB1,000,000 provided for the technical know-how Oxymatrine, as mentioned above.

SIGNIFICANT INVESTMENTS

For the year ended 2004, the Group did not have any significant investment.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

In April 2004, the Group recognized the second phase investment of RMB1,200,000 on the associated company Shanghai Lead Discovery Pharmaceutical Co., Ltd. ("Lead Discovery"), upon completion of capital verification by Lead Discovery.

CONTINGENT LIABILITIES

As at 31 December 2004, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

As at 31 December 2004, the Group did not have any charge on its assets.

BANKING FACILITIES

As at 31 December 2004, the Group had not applied for any banking facilities.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group has gone through the relevant process for the purchase of a 15-mou land at a site next to the Company for the new production facilities, and has signed the related compensation contract for land resumption on 25 February 2004. The total investment has not yet determined.

Save as above, the Group did not have any future plans for material investments or capital assets.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations and investing activities with internally generated financial resources, proceeds from the listing of shares on the Hong Kong GEM Board in August 2002 by the Company and financial assistance as well as loans from municipal government authorities. As at 31 December 2004, the Group had outstanding loans from municipal government authorities of RMB 1,650,000 which are unsecured and interest free.

As at 31 December 2004, the Group had a net cash and cash equivalent position of approximately RMB64,924,000.

The Group's gearing ratio as at 31 December 2004 was 0.10 (31 December 2003: 0.08) which is calculated based on the Group's total liabilities of RMB14,980,000 (31 December 2003: RMB 14,521,000) and shareholders' funds of RMB149,649,000 (31 December 2003: RMB174,550,000).

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

FOREIGN EXCHANGE EXPOSURE

The Group operates mainly in the domestic market. Cash proceeds from the placing of H shares in August 2002 were in HK dollars and part of which has not been converted to RMB. The official exchange rate for HK dollar and RMB is usually stable; however, the operating results and the financial position of the Group may be affected by the movements in exchange rates.

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

EMPLOYEES

As at 31 December 2004, the Group had a total of 137 employees, as compared to 124 employees as at 31 December 2003. Staff costs including directors' remuneration for the year ended 31 December 2004 and 2003 were RMB13,426,000 and RMB11,570,000, respectively. The Group's employment and remuneration policies remained unchanged from what were described in the Prospectus of the Company. The salaries and benefits of employees of the Group are kept at a competitive level and employees are rewarded on a performance related basis within the 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.

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 R&D of genetic engineering, new drug screening, and the commercialization of patent drugs and special drugs that suit the PRC market.

In respect of R&D, a summary of the Group's major achievements during the year are as follows:

- Five projects, namely recombinant human interleukin-1 receptor antagonist (重組人白細胞介素-1受體拮抗劑) (rhIL-1Ra) for the treatment of arthritis, recombinant human parathyroid hormone derivatives(重組人甲狀旁腺激素 (rhPTH) for the treatment of osteoporosis, ALA (5-氨基酮戊酸鹽) for the treatment of pointed condyloma (尖銳濕疣), α-glucosidase Inhibitor (桑根鹼片) for the treatment of diabetes, and light sugar for the treatment of diabetes, have been approved by the State Food and Drug Administration ("SFDA") to enter into clinical research.

- Registration approval for the health food Andijin (安抵金) for reduction of blood sugar has been obtained.

- Recombinant human soluble TNFR 75 fusion protein (Etanercept) (重組人可融性 TNFR75 融合蛋白) for the treatment of arthritis, and Hemporfin, a photodynamic therapy drug, have been applied to SFDA to proceed with clinical researches.

- Application has been made to SFDA for the production approval in respect of Doxorubicin Liposome Injection (脂質體阿霉素).

In respect of technology transfers, the Group is actively exploring for overseas markets, and has entered into technology transfer and technology service contracts with companies in Taiwan and Singapore.

- According to the technology transfer contract with a pharmaceutical company in Taiwan, the Group transferred the overseas rights of a technology to that company for a consideration of RMB7,500,000. The Group is also entitled to a profit sharing on the sales after its launch of the products.

- The Group's subsidiary, Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. ("Morgan Tan"), entered into an agreement with a pharmaceutical company in Shandong province, and transferred a technology to that company at a consideration of RMB4,500,000.

- Another subsidiary of the Group, Shanghai Ba Dian Medicine Co., Ltd. (上海靶點藥物有限公司) ("Ba Dian") entered into a technology development agreement with a pharmaceutical company in Singapore involving an amount of RMB4,500,000 for the technological development and technical services on two of its medical projects.

- In September 2004, the Group entered into a technology transfer contract with a Taiwan company in respect of the transfer of overseas rights on a technology to that company for a consideration of RMB2,300,000. The Group will share in proportion of the sales profits upon the launch of the product,.

- In February 2005, the Group entered into a technology transfer contract with a company in Mainland China in respect of the transfer of the technology to that company for a consideration of RMB17,000,000, and at the same time, reserving to the Group the rights to share in certain proportion of sales profits.

By strategically transferring the rights of its R&D projects in China and overseas to different companies, such arrangement benefits the Group by maximizing the Group's returns from such projects.

In respect of patents, the Group has been actively protecting its intellectual property rights on its innovative medicines and research results. During the period under review, the Group has applied for 7 invention patents, including 3 Patent Cooperation Treaty (PCT) patents, including hemporfin for the treatment of macular degeneration, Arginine Deiminase (精氨酸脫亞胺酶) with anti-tumor activities and receptor selective lymphotoxin (受體選擇性淋巴毒素). During the period under review, the Group has received grants of 4 invention patents. As at 31 December 2004, the Group has applied for 25 invention patents in aggregate, and has been granted 10 invention patents.

In respect of commercialization, the Down's Syndrome antenatal screening system has obtained drug registration certificate from the SFDA, and passed the GMP certification by the SFDA. The product has become the first product approved for production and sale by the SFDA since the launch of the "Birth defect interference projects" by the PRC, which is targeting the newly born baby market of approximately 20 million every year. The launch of the product is a new milestone in the course of the Group's commercialization development.

Since its establishment, the Group has been in compliance with the industrial policies of the State, improving its capacity of self-development of new drugs as its principal direction of

development, and has obtained the full support by the State. The Group has obtained a number of grants from reputable funds, provincial or State level medical and pharmaceutical institutions in the PRC. During the period under review, the various grants in respect of the R&D projects obtained by the Group amounted to RMB4,605,000, indicating the outstanding results obtained by the Group in the R&D area.

The research on the Group's various R&D projects have been progressing successfully. However, there are also delays on the progress of some items due to adjustments on the focus of R&D and changes made by SFDA on the procedures for clinical applications. Overall, most of the R&D projects are progressing as planned, and at the same time, some projects which were not disclosed in the prospectus, have been completed ahead of schedule. Original project plans and their actual progress are as follows:

Project name and description	**Anticipated progress of R&D in 2004 as set out in the prospectus**	**Actual progress as at 31st December, 2004**
Recombinant human lymphotoxin-α derivatives (rhLT) for the treatment of lung cancer	Completed trial production	Completed stage I clinical test. Stage II clinical test is pending approval by the SFDA
Recombinant human parathyroid hormone derivatives (rhPTH) for the treatment of osteoporosis	Commenced Stage III clinical test	Has been approved by the SFDA for clinical test
Construction of GMP plant	GMP certificate has been obtained, and completed purchase of all production and quality control facilities	GMP plant for the production of Down's Syndrome antenatal screening system has been completed and passed GMP certification. In addition, land requisition compensation contract has been entered into for the land use right of approximately 15 mou of land, for the use in the commercialization of the projects to follow
Hemporfin, a photodynamic therapy drug	Completed Stage III clinical test	Application for clinical test has been made to the SFDA
Deuteroporphyrin, a photodynamic therapy drug	Commenced Stage III clinical test	Has basically completed pre-clinical researches

Project name and description	Anticipated progress of R&D in 2004 as set out in the prospectus	Actual progress as at 31st December, 2004
Human leukocyte antigen (HLA) genetic chips	—	Completed
Lymphotoxin mutants	—	Completed
New type of erythropoietin	—	Research is suspended due to other considerations and is replaced with recombinant human interleukin-1 receptor antagonist (重組人白細胞介素-1受體拮抗劑) (rhIL-1Ra). The project has been approved by the SFDA to enter into clinical test
α-1,4 glucosidase inhibitor	Completed pre-clinical research	Completed ahead of schedule, and approved by the SFDA to enter into clinical test
Others	Completed research on the theories of compound Chinese medicine for the treatment of hepatic fibrosis. Completed design and screening platform for the design of improved new drug. Developed two to three drugs as new targets for future development. Determined one to two self-developed full functional fusion proteins	The direction of research in Chinese medicines has been replaced with the research in liposome, the remaining tasks have all been completed
Recombinant human interleukin-1 receptor antagonist (重組人白細胞介素-1受體拮抗劑) (rhIL-1Ra)	Nil	Has been approved by the SFDA to enter into clinical test

Project name and description	Anticipated progress of R&D in 2004 as set out in the prospectus	Actual progress as at 31st December, 2004
Recombinant human soluble TNFR 75 fusion protein (Etanercept) (重組人可融性 TNFR75 融合蛋白) for the treatment of arthritis	Nil	Application has been made to the SFDA for clinical test
ALA (5-氨基酮戊酸鹽), a new photodynamic drug (bulk)	Nil	Has been approved by the SFDA to enter into clinical test, and clinical test is half completed
ALA (5-氨基酮戊酸鹽), a new photodynamic drug (preparation)	Nil	Has been approved by the SFDA to enter into clinical test, and clinical test is half completed

USE OF PROCEEDS

During the period from 1 January 2004 to 31 December 2004, the Group has applied the net proceeds as follows:

Item	Anticipated use of the net proceeds for the year ended 31 December 2004 as set out in the prospectus *(RMB'000)*	Actual amount used as at for the year ended 31 December 2004 *(RMB'000)*
Research and commercialization of genetic engineering drugs		
Recombinant human pymphotoxin-α derivatives (rhLT)	—	1,387
Recombinant human parathyroid hormone derivatives (rhPTH)	—	394
Purchase of production and quality control facilities	—	2,014
Research and commercialization of photodynamic therapy drugs		
Hemporfin	—	1,292
Deuteroporphyrin	—	1,485
Research and commercialization of medical diagnosis products		
HLA genotyping chips	—	1,799
Enhancement of the Company's capabilities in R&D and new drug screening	—	6,947
Total	**—**	**15,318**

FUTURE PROSPECTS

With the increasing awareness of medical health products by the civilians, and the continuing enhancement of the economic development level and the consumption level of the people, prospects of the pharmaceutical market in the PRC is very promising. The Group will continue to develop and manufacture innovative drugs as in the past, and to protect its intellectual property rights by more stringent measures, including its R&D technologies and products under patent protections. Therefore, the Directors are fully confident and optimistic on the development prospects of the Group.

In order to maintain its market competitiveness, the Group will further strive to expand its existing market share, and focus its resources in the R&D, commercialization, project transfers and marketing.

- **R&D**

  Over the years, the Group has accumulated extensive experience in research and development, and has achieved a leading position in the pharmaceutical industry in the PRC. The Group has formed a very close cooperative relationships with Life Science Research Institute of the Chinese Academy of Sciences, Shanghai Organic Chemistry Research Institute of the Chinese Academy of Sciences and Shanghai Institute of Medical Research of the Chinese Academy of Sciences, all being reputable domestic institutions. At the same time, the Group also made further cooperation with other international and domestic R&D institutes. In future, the Group will devote efforts to achieve breakthroughs in R&D of projects with proprietary intellectual property rights.

  As for the research in genetic engineering drugs, since R&D of protein engineering and antibody engineering drugs are the major direction of in the area of bio-pharmaceutical research, the Group has strategically shifted its research focus to the R&D of phage high flux screening (噬菌體高通量篩選) and high expression technology (高表達技術) of animal cells, which are essential components for protein engineering (蛋白工程) and antibody engineering (抗體工程). Application has been made to the SFDA for the clinical test of the recombinant human soluble TNFR 75 fusion protein (Etanercept) (重組人可融性 TNFR75融合蛋白) for the treatment of arthritis which the Group developed on the platform. Currently, the Company has commenced in the research of another mono-cloning antibody drug with proprietary intellectual property rights.

  On the other hand, in respect of the R&D on the Group's drug design and screening, by extensively using computer-assisted designs, combinatory chemistry and high throughput screening platforms for the screening of new drugs, progress has been made in the research on the blocking agent to block AIDS virus from entering the CCR4 and CCR5 receptors, and has obtained supports from the State foundation, making the project to be of significant development potential.

Regarding the R&D on photodynamic therapy drug, the Group will effectively perform clinical researches on the photodynamic projects which have been approved for clinical research, and develop new proprietary indication for such drugs (macular degeneration for which patent application has been made) and research on a new drug precursor.

Regarding transmission system of new drugs, the Group will further develop a number of liposome drugs based on Doxorubicin Liposome (脂質體阿霉素), for which application to SFDA has been made, in order to form a series of liposome drugs.

In 2004, the Group has been approved by the SFDA to enter into clinical test on 5 drugs, and it is anticipated that approvals will be granted by SFDA one after the other commencing from 2005. By then, the relevant clinical trials will become the focus of the Group's research activities. The Group will continue to recruit professional expertise to conduct clinical research proactively and efficiently.

- **Commercialization**

The Group's commercialization activities at present are mainly based on medical diagnostic products. It will continue to promote existing diagnosis products so as to further increase its market share. The Group will comply with the standardization requirements of SFDA relating to vitro diagnostic reagents, and product registration and applications have also basically been completed. Bio-chemical diagnostic reagents which were formerly registered under the Drug Management Category now have to be registered under the Medical Device Management Category.

The Group's antenatal screening system for Down's Syndrome has been granted with production approval, and passed the GMP certification of SFDA, and has commenced sales. The project has become the first product being approved for production and clinical application by SFDA since the commencement of the "Birth defects interference engineering" in China. Potential of such product in the market is huge. The Group plans to establish a solid collaboration with the related entities of the Scientific Research Institute of the State Birth Planning Committee, and actively participates in the regional promotion of the "Birth defects interference engineering". It is anticipated that this project will contribute profit to the Company.

Currently, clinical test on ALA (5-氨基酮戊酸鹽), a new photodynamic drug of the Group, is near to half completion, and is expected to obtain new drug certificate within the year. Application to SFDA has been made for production of Doxorubicin Liposome (脂質體阿霉素). The two products will soon be put into commercialization. The Group is proactively planning for the production facilities of these two categories of products, so as to be in line with the GMP certification and market sales of these two products. The production of these two products is expected to contribute to the Group's revenue.

In respect of commercialization, in addition to the production and sales of diagnostic reagents, antenatal screening system for Down's Syndrome, and the Group's ALA (5-氨基酮戊酸鹽), a new photodynamic drug and Doxorubicin Liposome (脂質體阿霉素) which are pending approval and production, the Group will be successfully transformed from purely research and development both R&D and commercialization, thereby enabling the Company to proceed to a more solid development stage.

- **Project transfers**

  With a number of projects close to obtaining approvals on clinical trial, the overall value of such projects for transfer and the chance for a successful transfer will increase. Therefore, the Directors anticipate that with the increasing number of projects being approved to commence clinical trial, income from technology transfer will grow in 2005. The Group not only aims to derive transfer fee from project transfer but will also insist on entitlement to a royalty fee based on future sales revenue, as a source of steady long-term revenue for the Group. The Group will retain some of the intellectual property right projects as key development, until their commercialization and commencement of marketing, and to transfer the rights on non-key development projects domestically and overseas so as to maximizetheir values.

  In anticipation of the formal launching of the antenatal screening system for Down's Syndrome, and the approval for production of Doxorubicin Liposome (脂質體阿霉素), a new photodynamic drug in the near future, the Group is currently engaged in the development of the marketing system, so as to complete the organic integration of the Group's research and development, product manufacture to marketing functions.

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

For the year ended 31 December 2004, none of the Company, its subsidiaries, its fellow subsidiaries or its ultimate controlling companies has engaged in any arrangement, to enable the Directors or Supervisors of the Company to benefit from acquiring the shares in or debentures of the Company or of any other body corporate.

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

As at 31 December 2004, the interests (including interests in shares and / or short positions) of the Directors, Chief Executive and Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, (a) as notified to the Company and the Stock Exchange pursuant to: Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO"); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

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

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

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2004, the persons other than a director, chief executive or supervisor of the Company who have interests and / or short positions in the shares or underlying shares of the Company subject to disclosure under Divisions 2 and 3 of Part XV of the SFO are listed as follows (the interests in shares and / or 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%

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
SIIC Medical Science and Technology (Group) Limited	H Shares	4,708,000 (L)	Beneficial Owner	Corporate	2.38%	0.66%
Princepts MB Asset Management Corp.	H Shares	18,900,000 (L)	Beneficial Owner	Corporate	9.54%	2.66%

DIRECTORS' INTERESTS IN CONTRACTS

No significant contract according to which the Group and the Directors made any material transactions, whether directly or indirectly, was signed as at the end of the financial year 2004 or at any time during that financial year.

SPONSORS' INTERESTS

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

As at 31 December 2004, one fellow subsidiary of Guotai Junan held 1,208,000 H Shares of the Company. Save as mentioned above, none of Guotai Junan, Barits, their directors, employees or any of their respective associates has any interest in any securities of the Company or any of its associated corporations.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors of the Company, namely Mr. Pan Fei, who is the chairman of the audit committee, Mr. Wong De Zhang and Mr. Cheng Lin.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the 2004 annual report.

COMPETING INTERESTS

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

Shanghai Pharmaceutical Co., Ltd.

Investee company	Nature of business	Shareholding interests
Shanghai Tongyong Pharmaceutical Co., Ltd. (上海通用藥業股份有限公司)	Drug manufacturing	40%
Shanghai Pharmaceutical (Sudan) Co., Ltd. (上海制藥(蘇丹)有限公司)	Drug manufacturing	55%
Shanghai Hefeng Pharmaceutical Co., Ltd. (上海禾豐制藥有限公司)	Drug manufacturing	50%
Shanghai Fuda Pharmaceutical Co., Ltd. (上海福達制藥有限公司)	Drug manufacturing	70%
Anhui Huashi Pharmaceutical Co., Ltd. (安徽華氏醫藥有限公司)	Drug manufacturing	67%
Shanghai Huashi Pharmaceutical Co., Ltd. (上海華氏制藥有限公司) *(Note 1)*	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.

Investee company	Nature of business	Shareholding interests
Hainan Tongmeng Pharmaceutical Co., Ltd. (海南同盟藥業有限公司)	Drug manufacturing	49%
Hainan Sanyang Pharmaceutical Co., Ltd. (海南三洋藥業有限公司) *(Note 2)*	Drug manufacturing	65%
Yunnan Tongyong Shanmei Pharmecautical Co.,Ltd. (雲南通用善美制藥有限公司)	Drug manufacturing	51%

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

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%

Notes: Yu Qing Hua, a non-executive Director and a director of Shanghai Pharmaceutical Co., Ltd., was nominated and appointed by Shanghai Pharmaceutical Co., Ltd. as the chairman of the board of Shanghai Huashi Pharmaceutical Co., Ltd.

BOARD PRACTICES AND PROCEDURES

During the year ended 31 December 2004, the Company has been complying with Rules 5.34 to 5.45 of the GEM Listing Rules relating to the board practices and procedures.

SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2004, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings stipulated in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the Directors of the Company have been complying with the required standard of dealings and the code of conduct for directors' securities transactions during the year ended 31 December 2004.

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 year ended 31 December 2004

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 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.

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.

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 considers the independent non-executive Directors as independent.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who upon retirement is eligible for offering itself for re-appointment. The Company has not changed the auditor during the last three years.

By Order of the Board
Wang Hai Bo
Chairman

As at the date on the publication of this announcement, the Board comprises:

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

Shanghai, the PRC, 29 March 2005

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

* *For identification purpose only*