



上海復旦張江生物醫藥股份有限公司
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. *
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 8231)

INTERIM REPORT

For the six months ended 30 June 2013

* *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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review for the six months ended 30 June 2013

For the six months ended 30 June 2013, the Group recorded a turnover of approximately RMB156,933,000, comparing to a turnover of approximately RMB82,684,000 for the same period in 2012. This represents an increase of 90%. Sales of Libod and ALA, the main products of the Group have contributed significant revenue to the Group during the period and their turnover increased about RMB46,732,000 and RMB26,463,000, respectively, from that of the corresponding period last year.

The total turnover for the six months ended 30 June 2013 came from the sale of medical products, the income from exclusive distribution rights and the revenue from technology transfer. The source of total turnover for the six months ended 30 June 2012 was the same as that of this period of 2013.

For the six months ended 30 June 2013, the Group incurred cost of sales of approximately RMB12,273,000, comparing to RMB6,148,000 for the same period in 2012. Gross profit margin has decreased from 93% to 92% for the same period in 2012. The relatively stable margin mainly benefits from the strict cost control that the Group executed.

For the six months ended 30 June 2013, operating profit of the Group was approximately RMB34,050,000, comparing to an operating profit of RMB18,462,000 for the same period in 2012. Of the major costs and expenses presented before operating profit, research and development costs had increased by 63%, distribution and marketing costs had increased by 72%, administrative expenses had increased by 39%, respectively, comparing to those of the same period in 2012. The increase of research and development costs was mainly due to the increase of investments on some R&D projects. The distribution and marketing costs increased in line with the sales accordingly. For the six months ended 30 June 2013, other operating expenses of the Group was approximately RMB3,313,000, comparing to that of RMB57,000 for the same period in 2012. The increase of other operating expenses was mainly due to the exchange losses of the cash proceeds from the new H-share placing. The other income had increased by 1% compared to that of the same period in 2012, which mainly represented the income from Shanghai Pharmaceuticals Holding Co., Ltd. (“Shanghai Pharmaceuticals”, a shareholder of the Company) for the cooperation on innovative pharmaceutical research and development amounted to RMB9,416,000.

The profit attributable to the shareholders of the Company of approximately RMB27,904,000 was recorded in the unaudited consolidated statement of comprehensive income for the six months ended 30 June 2013, compared with the profit attributable to the shareholders of RMB16,205,000 for the same period in 2012, representing an increase of 72%.

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 Company has obtained two New Drug Certificates the numbers of which are Guo Yao Zheng Zi H20120079 for materials and Guo Yao Zheng Zi H20120076 for injection issued by the State Food and Drug Administration for Hemoporphin (海姆泊芬), a photodynamic drug for the treatment of Port Wine Stain. Hemoporphin belongs to Chemical Drugs Class 1.1.

ALA (鹽酸氨酮戊酸), a photodynamic drug for the treatment of cervical diseases infected by HPV has entered the clinical trial phase I.

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-Fc融合蛋白) for the treatment of arthritis has been completed, and application for clinical study has been submitted. The project is in the communication stage of the approval process.

Duteroporphyrin (多替泊芬), a photodynamic drug for the treatment of tumors has completed the clinical trial phase I, and initiated the preparatory work for clinical trial phase II. Vincristine Liposome (長春新鹼脂質體), a nano drug for the treatment of malignant tumors has entered into the clinical trial phase I. The Recombinant human lymphotoxin α -derivatives (rhLT) (重組人淋巴毒素 α 衍生物) for the treatment of tumors has entered into the clinical trial phase II.

In respect of commercialization, since the launch of ALA for the treatment of dermal HPV infectious disease and proliferative disease as represented by Condyloma acuminata, and Libod for the treatment of tumors, sales revenue of these products has been increasing steadily.

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 reagents, ALA, Eyan and Libod. The sales revenue has made significant increase compared with the same period in 2012. As more products are launched to the market, it is expected that the future sales revenue will be increasing extensively. The Group has successfully accomplished the transformation from a pure R&D body 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 2013 (2012: Nil).

CHARGE ON ASSETS

On 21 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

On 20 March 2011, the bank borrowing of RMB25,000,000 was taken by Taizhou Pharmaceutical with an interest rate of 6.40%. The borrowing is guaranteed by the Company, and will be repaid on 20 March 2015.

On 21 March 2011, the bank borrowing of RMB15,000,000 was taken by Taizhou Pharmaceutical with an interest rate of 6.40%. The borrowing is secured by the leasehold land of Taizhou Pharmaceutical, and will be repaid on 21 March 2014.

On 15 November 2012, the unsecured bank borrowing of RMB15,000,000 was taken by the Company with an interest rate of 6.60%. The loan will be repaid on 15 November 2013.

On 15 January 2013, the unsecured bank borrowing of RMB15,000,000 was taken by the Company with an interest rate of 6.30%. The loan will be repaid on 15 January 2014.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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 second transfer as stipulated by the contract and the registration procedures have been completed.

As at 30 June 2013, 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, proceeds of the share placement, support from the municipal government authorities and commercial loans. On 30 June 2013, the Group had outstanding loans RMB80,000,000 of which RMB40,000,000 was unsecured, and RMB40,000,000 was secured or guaranteed bank loans.

On 30 June 2013, the Group had cash and cash equivalents of approximately RMB276,007,000.

As at 30 June 2013, total borrowings of the Group were less than cash and cash equivalents. The Group's gearing ratio as at 30 June 2013 was negative 0.67 (31 December 2012: negative 0.14) which was calculated based on the Group's net debt of negative RMB196,007,000 (31 December 2012: net debt of negative RMB31,769,000) and total capital of RMB292,492,000 (31 December 2012: RMB228,344,000).

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.

EMPLOYEES AND SALARIES

On 30 June 2013, the Group had a total of 426 employees, comparing with 343 employees on 30 June 2012. Staff costs including directors' remuneration for the six months ended 30 June 2013 and 2012 were RMB23,770,000 and RMB21,568,000 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.

SHARE CAPITAL

On 4 February 2013, the Company completed placing 142,000,000 H shares with a par value of RMB0.10 each at a price of HKD1.70. Therefore, the share capital of the Company increased to RMB85,200,000.

On 29 June 2012, the Company adopted a Restricted Share Scheme to issue no more than 71,000,000 Domestic Shares as restricted stock under the scheme. Pursuant to the scheme, the participants mainly include Directors, senior management, mid-level management and key research staff of the Group who contribute to success of the Company's strategy, and other key employees who, in the opinion of the Board or the remuneration committee of the Company, contribute directly to the overall business performance and sustainable development of the Group. On 24 June 2013, the Company has completed the grant of Restricted Shares under the Initial Grant. The Company granted 35,500,000 Restricted Shares to the Scheme Participants at the grant price of RMB0.51 per Restricted Share pursuant to the Restricted Share Scheme. Therefore, the share capital of the Company increased to RMB88,750,000.

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

As at 30 June 2013, 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 class of share capital	Percentage in total share capital
Wang Hai Bo	Domestic Shares	54,886,430 (L)	Beneficial owner	Personal	10.02%	6.18%
Su Yong	Domestic Shares	20,312,860 (L)	Beneficial owner	Personal	3.71%	2.29%
Zhao Da Jun	Domestic Shares	17,260,710 (L)	Beneficial owner	Personal	3.15%	1.94%
Fang Jing	Domestic Shares	5,654,600 (L)	Beneficial owner	Personal	1.03%	0.64%

Note: The letter “L” stands for long position.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 June 2013, 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	25.49%	23.68%
	H Shares	70,564,000(L)			20.75%	
Shanghai Pharmaceuticals Holding Co., Ltd.	Domestic Shares	139,578,560 (L)	Beneficial Owner	Corporate	25.49%	23.68%
	H Shares	70,564,000 (L)			20.75%	
China New Enterprise Investment Fund II	Domestic Shares	130,977,816 (L)	Beneficial Owner	Corporate	23.92%	14.76%
Shanghai Zhangjiang (Group) Co. Ltd.	Domestic Shares	105,915,096 (L)	Interest of controlled corporation	Corporate	19.35%	11.93%
Shanghai Zhangjiang Hi-Tech Park Development Corp.	Domestic Shares	105,915,096 (L)	Beneficial Owner	Corporate	19.35%	11.93%
Shum Ning	H Shares	31,628,000 (L)	Beneficial Owner	Personal	9.30%	3.56%
Fudan University	Domestic Shares	30,636,286 (L)	Interest of controlled corporation	Corporate	5.60%	3.45%
Shanghai Fudan Asset Operating Limited (上海復旦資產經營有限公司)	Domestic Shares	30,636,286 (L)	Beneficial Owner	Corporate	5.60%	3.45%
Boxin China Growth Fund I LP	H Shares	27,000,000 (L)	Investment manager	Corporate	7.94%	3.04%

Note 1: The letter “L” stands for long position.

Note 2: As at 30 June 2013, Shanghai Zhangjiang Hi-Tech Park Development Corp. has sold all equities in the Company to the third parties, but the transfer and registration procedures have not yet been completed.

SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2013, 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 2013.

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 2013.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial reporting, internal controls and corporate governance issues and making relevant recommendations to the Board. All the members are Independent Non-executive Directors: Mr. Pan Fei, Mr. Weng De Zhang and Mr. Cheng Lin. Mr. Pan Fei was appointed as the chairman of the Committee.

The Audit Committee reviews the accounting principles and practices adopted by the Group, as well as the listing rules and statutory compliance, and reviews issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee reviewed the Group’s interim results for the six months ended 30 June 2013 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 (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (the “Code”) under Appendix 14 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited. In some aspects, the codes of corporate governance adopted by the Company are even stricter than the provisions as set out in the “Code”. Hereunder are the points which are stricter than or deviate from the provisions in the “Code”:

Major aspects which are stricter than the provisions as set out in the “Code”:

- All members of the Audit Committee are Independent Non-executive Directors.

Major aspects which deviate from the provisions as set out in the “Code”:

- The chairman and the general manager is the same person. Although the Articles of Association has specific requirements on the duties of the chairman and the general manager (chief executive), which are to be responsible for the operating management of the Board and the daily management of the Company’s business respectively, 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 chief executive 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 chief executive duties.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited		Unaudited	
		Three months ended 30 June		Six months ended 30 June	
		2013	2012	2013	2012
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	3	109,905	64,126	156,933	82,684
Cost of sales	5	(9,181)	(4,429)	(12,273)	(6,148)
Gross profit		100,724	59,697	144,660	76,536
Other income	4	5,659	7,464	16,333	16,223
Research and development costs	5	(8,599)	(4,846)	(17,524)	(10,766)
Distribution and marketing costs	5	(64,625)	(43,904)	(93,179)	(54,175)
Administrative expenses	5	(6,871)	(4,928)	(12,927)	(9,299)
Other operating expenses	5	(1,950)	(28)	(3,313)	(57)
Operating profit		24,338	13,455	34,050	18,462
Finance costs		(1,528)	(952)	(3,515)	(1,586)
Profit before income tax		22,810	12,503	30,535	16,876
Income tax expense	6	(4,138)	(1,986)	(6,315)	(2,686)
Profit for the period		18,672	10,517	24,220	14,190
Other comprehensive income					
Fair value changes on available-for-sale investments		-	-	-	11
Total comprehensive income for the period		18,672	10,517	24,220	14,201
Profit attributable to:					
Shareholders of the Company		20,360	12,054	27,904	16,205
Non-controlling interests		(1,688)	(1,537)	(3,684)	(2,015)
		18,672	10,517	24,220	14,190
Total comprehensive income attributable to:					
Shareholders of the Company		20,360	12,054	27,904	16,212
Non-controlling interests		(1,688)	(1,537)	(3,684)	(2,011)
		18,672	10,517	24,220	14,201
Basic and diluted earnings per share for profit attributable to the shareholders of the Company (RMB)	8	0.0238	0.0170	0.0337	0.0228

INTERIM CONSOLIDATED BALANCE SHEET

		Unaudited	Audited
		30 June	31 December
		2013	2012
	<i>Note</i>	RMB'000	RMB'000
Non-current assets			
Leasehold land payments	9	33,735	34,130
Property, plant and equipment	9	250,564	221,263
Technical know-how	9	1,634	1,645
Deferred costs	9	6,129	5,817
Deferred income tax assets		4,064	4,364
Other non-current assets		555	4,796
		<hr/> 296,681	<hr/> 272,015
Current assets			
Inventories		15,078	6,943
Trade receivables	10	60,922	80,992
Other receivables, deposits and prepayments		11,945	10,718
Amount due from a related party	10	17,320	8,361
Cash and cash equivalents		276,007	158,267
		<hr/> 381,272	<hr/> 265,281
Total assets		<hr/> 677,953	<hr/> 537,296

INTERIM CONSOLIDATED BALANCE SHEET (CONTINUED)

		Unaudited 30 June 2013 <i>RMB'000</i>	Audited 31 December 2012 <i>RMB'000</i>
	<i>Note</i>		
Non-current liabilities			
Borrowing	12	25,000	40,000
Deferred revenue		25,438	14,072
		<u>50,438</u>	<u>54,072</u>
Current liabilities			
Trade payables	11	13,393	43,827
Other payables and accruals		42,073	57,532
Current income tax liabilities		5,004	5,712
Borrowings	12	45,000	76,498
Loans from government authorities	13	10,000	10,000
Deferred revenue		23,546	29,542
		<u>139,016</u>	<u>223,111</u>
Total liabilities		<u>189,454</u>	<u>277,183</u>
Capital and reserves attributable to shareholders of the Company			
Share capital		88,750	71,000
Reserves		366,548	152,228
		<u>455,298</u>	<u>223,228</u>
Non-controlling interests		33,201	36,885
Total equity		<u>488,499</u>	<u>260,113</u>
Total equity and liabilities		<u>677,953</u>	<u>537,296</u>
Net current assets		<u>242,256</u>	<u>42,170</u>
Total assets less current liabilities		<u>538,937</u>	<u>314,185</u>

INTERIM CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June 2013 RMB'000	Unaudited Six months ended 30 June 2012 RMB'000
Operating activities		
Cash (used for)/generated from operations	(5,648)	31,132
Interest paid	(3,515)	(1,586)
Interest received	840	1,291
Income tax paid	(6,723)	(6,283)
	<u>(15,046)</u>	<u>24,554</u>
Investing activities		
Purchase of property, plant and equipment	(26,690)	(51,781)
Additions of deferred costs	(819)	(1,268)
Purchase of available-for-sale financial assets	-	(4,054)
Proceeds from disposal of property, plant and equipment	2	3
Cash used for investments	(336,000)	-
Cash generated from investments	336,714	-
Proceeds from disposal of available-for-sale investments	-	3,886
	<u>(26,793)</u>	<u>(53,214)</u>
Net cash used for investing activities		
Financing activities		
Proceeds from placing and issue of restricted shares	207,857	-
Expenses paid for placing	(1,780)	-
Proceeds from borrowings	15,000	40,500
Repayments of borrowings	(61,498)	(6,660)
	<u>159,579</u>	<u>33,840</u>
Net cash generated from financing activities		
Net increase in cash and cash equivalents	117,740	5,180
Cash and cash equivalents at beginning of the period	158,267	110,069
	<u>158,267</u>	<u>110,069</u>
Cash and Cash equivalents at end of the period	276,007	115,249
	<u>276,007</u>	<u>115,249</u>

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					Total equity RMB'000
	Attributable to shareholders of the Company					
	Share capital RMB'000	Capital accumulation reserve RMB'000	Statutory common reserve fund RMB'000	Accumulated losses RMB'000	Non- controlling interests RMB'000	
Balance at 1 January 2012	71,000	211,233	2,829	(115,000)	31,005	201,067
Profit/(loss) for the period	-	-	-	16,205	(2,015)	14,190
Other comprehensive income						
Fair value on available-for-sale investments	-	7	-	-	4	11
Total comprehensive income	-	7	-	16,205	(2,011)	14,201
Balance at 30 June 2012	<u>71,000</u>	<u>211,240</u>	<u>2,829</u>	<u>(98,795)</u>	<u>28,994</u>	<u>215,268</u>
Balance at 1 January 2013	71,000	211,240	6,419	(65,431)	36,885	260,113
Profit/(loss) for the period	-	-	-	27,904	(3,684)	24,220
Other comprehensive income						
Fair value on available-for-sale investments	-	-	-	-	-	-
Total comprehensive income	-	-	-	27,904	(3,684)	24,220
Total contributions by owners of the Company recognized directly in equity						
Proceeds from shares issued	<u>17,750</u>	<u>186,416</u>	-	-	-	204,166
Balance at 30 June 2013	<u>88,750</u>	<u>397,656</u>	<u>6,419</u>	<u>(37,527)</u>	<u>33,201</u>	<u>488,499</u>

SELECTED NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Background

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 ("Domestic 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.

On 4 February 2013, the Company completed placing 142,000,000 H shares with a par value of RMB0.10 each at a price of HKD1.70. And the paid-in capital of the Company was increased to RMB85,200,000.

On 24 June 2013, the Company has completed the grant of Restricted Shares under the Initial Grant. The Company granted 35,500,000 Restricted Shares to the Scheme Participants at the grant price of RMB0.51 per Restricted Share pursuant to the Restricted Share Scheme. Therefore, the share capital of the Company increased to RMB88,750,000.

As at 30 June 2013, the Company had direct interests of 100%, 65%, 69.77% and 51% in four subsidiaries, Shanghai Morgan-Tan International Center for Life Sciences Co., Ltd. ("Morgan-Tan"), Shanghai Ba Dian Medicine Co., Ltd. ("Ba Dian"), Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou Pharmaceutical") and Shanghai Tracing Bio-technology Co., Ltd. ("Tracing") 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.

The address of the Company's registered office is 308 Cailun Road, Zhangjiang Hi-Tech Park, Pudong, Shanghai, 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 2013 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012, unless otherwise stated.

(a) New and amended standards adopted by the Group

The following amended standards are mandatory for the first time for the financial year beginning on 1 January 2013.

IFRS 7 (Revised)	Financial instruments: Disclosures
IFRS 10	Consolidated financial statements
IFRS 12	Disclosures of interests in other entities
IFRS 13	Fair value measurement
IAS 1 (Revised)	Financial statement presentation
IAS 19 (Revised)	Employee benefits
IAS 27 (Revised)	Separate financial statements
IAS 28 (Revised)	Associates and joint ventures

The adoption of the above amended standards did not have any significant impacts to the Group.

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

IFRS 9	Financial Instruments
IFRS 10	Consolidated financial statements
IFRS 12	Disclosures of interests in other entities
IFRS 27 (Revised)	Investment entities
IAS 32 (Revised)	Financial Instruments: Presentation

The unaudited consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June 2013. 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. Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary 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 2013			Unaudited three months ended 30 June 2012		
	Research and development activities <i>RMB'000</i>	Sales of medical products <i>RMB'000</i>	Total <i>RMB'000</i>	Research and development activities <i>RMB'000</i>	Sales of medical products <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover	<u>-</u>	<u>109,905</u>	<u>109,905</u>	<u>-</u>	<u>64,126</u>	<u>64,126</u>
Segment profit	780	31,991	32,771	1,727	15,793	17,520
Unallocated income			486			891
Unallocated costs			(10,447)			(5,908)
Profit before income tax			22,810			12,503
Income tax expense			(4,138)			(1,986)
Profit for the period			<u>18,672</u>			<u>10,517</u>

3. Turnover and segmental information (Continued)

	Unaudited six months ended 30 June 2013			Unaudited six months ended 30 June 2012		
	Research and development activities RMB'000	Sales of medical products RMB'000	Total RMB'000	Research and development activities RMB'000	Sales of medical products RMB'000	Total RMB'000
Turnover	<u>78</u>	<u>156,855</u>	<u>156,933</u>	<u>56</u>	<u>82,628</u>	<u>82,684</u>
Segment profit/(loss)	(2,807)	50,702	47,895	2,732	22,305	25,037
Unallocated income			1,694			2,781
Unallocated costs			<u>(19,054)</u>			<u>(10,942)</u>
Profit before income tax			30,535			16,876
Income tax expense			<u>(6,315)</u>			<u>(2,686)</u>
Profit for the period			<u>24,220</u>			<u>14,190</u>

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

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

4. Other income

Other income for the six months ended 30 June 2013 was mainly the realization of income from the strategic cooperation agreement with Shanghai Pharmaceuticals Holding Co., Ltd. (a shareholder of the Company) for the cooperation on innovative pharmaceutical research and development amounted to RMB9,416,000 (six months ended 30 June 2012: RMB9,366,000).

5. EXPENSES BY NATURE

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Amortisation of leasehold land payments	197	197	395	395
Less: amount capitalised in construction in progress	(171)	(171)	(342)	(342)
	26	26	53	53
Amortisation of deferred costs (included in 'Cost of sales')	254	400	507	714
Amortisation of technical know-how (included in 'Administrative expenses')	6	4	11	7
Auditors' remuneration (Reversal)/Provision of impairment of receivables	306	174	864	672
Inventories write-down	(99)	(7)	266	(7)
Changes in inventories of finished goods and work in progress	-	1,109	435	1,709
Raw materials and consumables used	91	618	4,444	3,228
Depreciation of property, plant and equipment	6,624	1,818	10,724	3,143
Loss/(Profit) on disposal of property, plant and equipment	3,374	1,404	6,421	2,680
Operating lease rentals in respect of land and buildings	16	2	(11)	11
Research and development expenses	264	189	404	301
Labor costs	1,118	226	2,582	1,534
Marketing and sales promotion expenses	11,481	10,817	23,770	21,568
Others	61,211	38,285	80,715	40,507
	6,554	3,070	8,031	4,325
Total of cost of sales, research and development costs, distribution and marketing costs, administrative expenses, and other operating expenses	91,226	58,135	139,216	80,445

6. Income tax

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax	<u>(4,138)</u>	<u>(1,986)</u>	<u>(6,315)</u>	<u>(2,686)</u>

Effective from 1 January 2008, the Company and its subsidiaries shall determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China as approved by the National People's Congress on 16 March 2007. In 2009, the Company obtained an approval for a two-year full exemption of income tax from 2008 followed by a three-year 50% reduction. After the Company was recognised as a high-tech enterprise, the applicable tax rate of the Company is 15% in 2013 (2012: 12.5%). The applicable tax rates of the subsidiaries are 25% in 2013 (2012: 25%).

7. Dividends

The Board of Directors recommended not to distribute any interim dividends in respect of the six months ended 30 June 2013 (2012: Nil).

8. Earnings per share

The calculation of the basic earnings per share for the three months ended 30 June 2013 and 30 June 2012 were based on the unaudited profit attributable to shareholders of the Company of approximately RMB20,360,000 (three months ended 30 June 2012: profit attributable to shareholders of the Company of approximately RMB12,054,000) and total shares in issue of 855,901,099 shares (three months ended 30 June 2012: 710,000,000 shares) during the three months ended 30 June 2012.

The calculation of the basic earnings per share for the six months ended 30 June 2013 and 30 June 2012 were based on the unaudited profit attributable to shareholders of the Company of approximately RMB27,904,000 (six months ended 30 June 2012: profit attributable to shareholders of the Company of approximately RMB16,205,000) and total shares in issue of 827,287,293 shares (six months ended 30 June 2012: 710,000,000 shares) during the six months ended 30 June 2013.

Diluted earnings per share have not been calculated for the three months or six months ended 30 June 2013 and 2012 respectively as there were no dilutive potential ordinary shares during those periods.

9. Capital expenditure

	Unaudited			
	Leasehold land payments <i>RMB'000</i>	Property, plant and equipment <i>RMB'000</i>	Technical Know-how <i>RMB'000</i>	Deferred costs <i>RMB'000</i>
Cost				
At 1 January 2013	37,356	265,808	4,623	11,664
Additions	–	35,992	–	819
Disposals	–	(1,218)	–	–
At 30 June 2013	37,356	300,582	4,623	12,483
Accumulated amortisation/ depreciation				
At 1 January 2013	3,226	44,545	2,978	5,847
Charge for the period	395	6,421	11	507
Disposals	–	(948)	–	–
At 30 June 2013	3,621	50,018	2,989	6,354
Net book value				
At 30 June 2013	<u>33,735</u>	<u>250,564</u>	<u>1,634</u>	<u>6,129</u>
Cost				
At 1 January 2012	37,356	152,802	3,034	10,482
Additions	–	61,824	–	1,268
Disposals	–	(161)	–	–
At 30 June 2012	37,356	214,465	3,034	11,750
Accumulated amortisation/ depreciation				
At 1 January 2012	2,436	40,834	2,957	4,625
Charge for the period	395	2,680	7	714
Disposals	–	(147)	–	–
At 30 June 2012	2,831	43,367	2,964	5,339
Net book value				
At 30 June 2012	<u>34,525</u>	<u>171,098</u>	<u>70</u>	<u>6,411</u>

10. Trade receivables

	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 <i>RMB'000</i>
Accounts receivables (<i>Note (a)</i>)	61,885	58,773
Notes receivable (<i>Note (b)</i>)	16,357	22,219
	<u>78,242</u>	<u>80,992</u>

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

	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 <i>RMB'000</i>
Current to 30 days	59,826	55,194
31 days to 60 days	511	2,068
61 days to 90 days	619	340
Over 90 days but less than one year	1,251	1,837
Over one year	957	346
	<u>63,164</u>	<u>59,785</u>
Provision	(1,279)	(1,012)
	<u>61,885</u>	<u>58,773</u>

Customers are generally granted credit term of 90 days.

(b) Notes receivable with no interests and guarantee are all bank acceptance notes with maturities less than six months.

11. Trade payables

	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 <i>RMB'000</i>
Accounts payables (<i>Note (a)</i>)	13,393	34,742
Notes payable (<i>Note (b)</i>)	–	9,085
	<u>13,393</u>	<u>43,827</u>

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

	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 <i>RMB'000</i>
Current to 30 days	12,642	33,522
31 days to 60 days	–	730
61 days to 90 days	6	6
Over 90 days but less than one year	337	267
Over one year	408	217
	<u>13,393</u>	<u>34,742</u>

Trade payables are unsecured and interest-free.

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

12. Borrowings

	Unaudited	Audited
	30 June	31 December
	2013	2012
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings, secured (<i>Note (a)</i>)	15,000	15,000
Long-term bank borrowings, guaranteed (<i>Note (a)</i>)	25,000	25,000
Less: current portion	(15,000)	–
	25,000	40,000
Current		
Short-term bank mortgage borrowings	–	38,500
Short-term bank credit borrowings (<i>Note (b)</i>)	30,000	37,998
Current portion of long-term bank borrowings, secured	15,000	–
	45,000	76,498

- (a) As at 30 June 2013, the long-term bank borrowings of RMB40,000,000 are taken by Taizhou Pharmaceutical with an interest rate of 6.40%. Among the long-term bank borrowings, RMB15,000,000 is secured by the leasehold land of Taizhou Pharmaceutical, and will be repaid on 21 March 2014; another RMB25,000,000 is guaranteed by the Company, and will be repaid on 20 March 2015.
- (b) As at 30 June 2013, the short-term bank credit borrowings of RMB30,000,000 are taken by the Company. Among the short-term bank credit borrowings, RMB15,000,000 will be repaid on 15 November 2013 with an interest rate of 6.60%; another RMB15,000,000 will be repaid on 15 January 2014 and bear an interest rate of 6.30%.

13. Loans from government authorities

The loans from government authorities are repayable as follows:

	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000
Current (Note (a))	<u>10,000</u>	<u>10,000</u>

- (a) As at 22 November 2010, Taizhou Pharmaceutical entered into an entrusted loan contract with Jiangsu Science and Technology Department. Pursuant to the contract, loan of RMB 10,000,000 was granted to Taizhou Pharmaceutical as government assistance, which is due for repayment on 10 December 2013. The interest rate is fixed at 0.30% annually, and the loan is unsecured.

14. Related party transactions

(i) Transactions

	Unaudited six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Shanghai Pharmaceutical Distribution Co., Ltd.		
Sales of medical products	<u>7,323</u>	<u>5,200</u>
Shanghai Pharmaceuticals Holding Co., Ltd.		
Income from the Cooperation Agreement	<u>9,416</u>	<u>9,366</u>

14. Related party transactions (Continued)

(ii) Balances

	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000
Amount due from the related party		
Shanghai Pharmaceuticals Holding Co., Ltd.	13,036	4,584
Shanghai Pharmaceutical Distribution Co., Ltd.	4,284	3,777
	<u>17,320</u>	<u>8,361</u>
Advance received for compensation		
Shanghai Qidu Technology Development Co., Ltd	7,972	7,972
	<u>7,972</u>	<u>7,972</u>
Advance received for cooperation (recorded in "Deferred Revenue")		
Shanghai Pharmaceuticals Holding Co., Ltd.	14,975	15,940
	<u>14,975</u>	<u>15,940</u>

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*)
Ms. Ke Ying (*Non-executive Director*)
Mr. Shen Bo (*Non-executive Director*)
Ms. Yu Xiao Yang (*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*)
Mr. Zhou Zhong Hui (*Independent non-executive Director*)

Shanghai, the PRC

8 August 2013