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 2005

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of The Stock Exchange of Hong Kong Limited and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by The Stock Exchange of Hong Kong Limited. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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.

AUDITED RESULTS

The board of directors of the Company announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 as follows:

(All amounts are shown in RMB thousands unless otherwise stated)	Year ended 31 December 2005	2004
Turnover	20,117	10,567
Cost of sales	(12,093)	(8,325)
Gross profit	8,024	2,242
Other income	6,571	6,588
Research and development costs	(24,438)	(18,440)
Distribution costs	(5,678)	(2,360)
Administrative expenses	(12,417)	(10,952)
Other operating expenses	(3,819)	(1,524)
Operating loss	(31,757)	(24,446)
Share of results of an associate	(2,900)	(2,240)
Loss before income tax	(34,657)	(26,686)
Income tax credit	4,301	258
Loss for the year	(30,356)	(26,428)
Attributable to:		
Shareholders of the Company	(29,085)	(24,901)
Minority interests	(1,271)	(1,527)
	(30,356)	(26,428)
Basic loss per share for loss attributable to the shareholders of the Company (RMB)	(0.0410)	(0.0351)

1 BACKGROUND INFORMATION

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 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.

The address of the Company's registered office is 308 Cailun Road, Zhangjiang Hi-Tech Park, Pudong Shanghai, PRC.

2 PRINCIPAL ACCOUNTING POLICIES

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

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:

	2005	2004
Technology transfer revenue	9,500	4,200
Sales of diagnostic reagents and the provision of related ancillary services	10,617	6,367
	20,117	10,567

4 OPERATING LOSS

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

	2005	2004
Amortisation of leasehold land payments	106	107
Amortisation of deferred development costs (included in 'Cost of sales')	1,819	1,331
Amortisation of technical know-how (included in 'Research and development costs')	1,416	1,898
Amortisation of technical know-how (included in 'Administrative expenses')	176	194
	1,592	2,092
Auditors' remuneration	920	902
Provision for bad debts	665	261
Impairment of technical know-how	—	1,000
Cost of inventories sold	10,274	6,994
Depreciation of property, plant and equipment	4,196	3,915
Less: amount capitalised in deferred development costs	(126)	(32)
	4,070	3,883
Loss on disposal of property, plant and equipment	2,891	57
Operating lease rentals in respect of land and buildings	113	113
Research and development costs (note (a))	24,438	18,440
- Charge during the year	15,261	18,440
- Written off deferred development costs carried forward from prior year	9,177	—
Loss/(profit) on disposal of available-for-sale investments	64	(367)
Provision for inventories obsolescence	87	—

(a): Research and development costs mainly represent the employee benefit expenses 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.

5 INCOME TAX CREDIT

	2005	2004
Current income tax	—	—
Deferred tax credit	(4,301)	(258)
	(4,301)	(258)

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%.

In 2005, as the subsidiaries and associate are recognised as domestic companies registered in Shanghai Pudong New Area, they are also entitled to the reduced Income Tax rate of 15%. Accordingly, the subsidiaries and associate are subject to Income tax at a rate of 15% (2004:33%).

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

	2005	2004
Loss before income tax	(34,657)	(26,686)
Tax calculated at a tax rate of 15%	(5,199)	(4,003)
Effect of different tax rate in the subsidiaries	—	(833)
Effect of unrecognised tax losses of the Group	860	4,533
Utilisation of previously unrecognised tax losses of a subsidiary	(25)	—
Expenses not deductible for tax purpose	63	45
Tax credit	(4,301)	(258)

6 DIVIDENDS

At the meeting on 22 March 2006, the Board of Directors recommended not to distribute any dividends in respect of the year ended 31 December 2005.

At the shareholders' Annual General Meeting on 24 June 2005, it was resolved not to distribute any dividends in respect of the year ended 31 December 2004.

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.

	2005	2004
Loss attributable to shareholders of the Company	(29,085)	(24,901)
Weighted average number of ordinary shares in issue (thousands)	710,000	710,000
Basic loss per share (RMB)	(0.0410)	(0.0351)

Diluted loss per share has not been calculated for the years ended 31 December 2005 and 31 December 2004 as there were no dilutive potential ordinary shares during the years then ended.

8 RESERVES

(i) The reserves of the Group attributable to shareholders of the Company for the years ended 31 December 2005 and 31 December 2004 are as follows:

	Capital accumulation reserve	Statutory common reserve fund	Statutory common welfare fund	Accumulated losses	Total
At 1 January 2004	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
Loss for the year	—	—	—	(29,085)	(29,085)
At 31 December 2005	115,014	1,709	1,120	(68,279)	49,564

(ii) The reserves of the Company for the years ended 31 December 2005 and 31 December 2004 are as follows:

	Capital accumulation reserve	Statutory common reserve fund	Statutory common welfare fund	Accumulated losses	Total
At 1 January 2004	115,014	1,709	1,120	(7,134)	110,709
Loss for the year	—	—	—	(21,303)	(21,303)
At 31 December 2004	115,014	1,709	1,120	(28,437)	89,406
Loss for the year	—	—	(23,833)	(23,833)	(23,833)
At 31 December 2005	115,014	1,709	1,120	(52,270)	65,573

(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 2005 (2004: 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 2005 amounted to approximately RMB20,117,000, compared to RMB10,567,000 for the same period in 2004. During the year under review, approximately RMB9,500,000 (or 47% of the total turnover) was derived from the income of technology transfer, and the rest of approximately RMB10,617,000 (or 53% of the total turnover) came from the sale of diagnostic products and the provision of the ancillary services. In contrast, 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 for the year 2004.

REVENUE FROM TECHNOLOGY TRANSFER

Income recognized from technology transfer for the year 2005 was approximately RMB9,500,000. Following the successful transfer of the overseas rights of a technology to a company in Taiwan, the Group managed to transfer the domestic rights of the same technology to a company in the PRC for a consideration of RMB17,000,000. During the year under review, the economic benefits flowed into the Group due to the completion of certain stages of the project was RMB6,800,000. According to a contract signed with a Taiwan based pharmaceutical company, the Group transferred the overseas rights of another technology to that company for a consideration of RMB2,300,000, and has recognized an income of RMB1,000,000 in the year 2005. In addition, RMB1,700,000 was generated by the technology Mycophenolate Mofetil, transferred from Morgan-Tan, a subsidiary of the Group.

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

Revenue of the Group from the sale of diagnostic products and the provision of ancillary services for the year ended 31 December 2005 was RMB10,617,000, increased by 67% from

the same period last year. The main reason for the significant increase of the sales revenue is that the Group has launched a new product Down's Syndrome antenatal screening system to the market within the year under review, which has won a certain market recognition, and the sales income of which has stepped into a steady upward path.

COST OF SALES

For the year ended 31 December 2005, cost of sales of the Group was RMB12,093,000, while the corresponding figure for the same period last year was RMB8,325,000. The increase in cost of sales is lower than the increase in revenue, which indicates that cost control of the Group has been healthier.

OPERATING LOSS

For the year ended 31 December 2005, operating loss of the Group was RMB31,757,000, comparing to RMB24,446,000 for the year 2004. Total expenses grew up by 39% from that of last year as a result of the rising expenditure of the following items, leading to a dropping operating result.

- Research and development costs increased to RMB24,438,000 from last year figure RMB18,440,000. The main reason for the difference was that the management considered that one of the self-developed projects would not meet all the criteria for deferred development cost and from a cautious perspective, has one-off written off the amount capitalized in the previous years.

- Distribution costs increased to RMB5,678,000 from RMB2,360,000 of the same period last year. This is mainly because that the Group has devoted more resources in launching the new product Down's Syndrome antenatal screening system to the market.

- Administration and other expenses have also increased from those of last year respectively. Part of the facilities annexed to the original building has been disposed of as a result of the re-construction of the plant.

LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

A loss attributable to shareholders of the Company of RMB29,085,000 was recorded for the year ended 31 December 2005, compared with RMB24,901,000 for the same period in 2004.

SIGNIFICANT INVESTMENTS

For the year ended 31 December 2005, the Group did not have any significant investment.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the year ended 31 December 2005, the Group did not have any material acquisitions or disposals of subsidiaries and associated companies.

CONTINGENT LIABILITIES

As at 31 December 2005, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

As at 31 December 2005, the Group did not have any charge on its assets.

BANKING FACILITIES

As at 31 December 2005, the Group had not applied for any banking facilities.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2005, the Group did not have any future plans for material investments or capital assets.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances 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 2005, the Group had outstanding loans from municipal government authorities of RMB 1,650,000 which are unsecured and interest free.

As at 31 December 2005, the Group had a net cash and cash equivalent position of approximately RMB49,755,000.

The Group's gearing ratio as at 31 December 2005 was 0.16 (31 December 2004: 0.10) which is calculated based on the Group's total liabilities of RMB19,178,000 (31 December 2004: RMB 14,980,000) and capital and reserves attributable to shareholders of the Company of RMB120,564,000 (31 December 2004: RMB149,649,000).

The Group adopts a conservative treasury policy in cash and financial management. To achieve better risk control and 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 dollar 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 AND SALARIES

As at 31 December 2005, the Group had a total of 144 employees, as compared to 137 employees as at 31 December 2004. Staff costs including directors' remuneration for the year ended 31 December 2005 and 2004 were RMB14,289,000 and RMB13,426,000, respectively.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 more we explore, the healthier human beings will be" and pursuing the "research and development (R&D)" of genetic technology, drug screening technology, new drugs with patents and the industrialization of the specific drugs suitable for China market as core position, the Group aims to become a pioneer in the bio-pharmaceutical industry.

In respect of R&D, the Group has achieved the following results during the period under review:

- Applications have been made to the State Food and Drugs Administration of the PRC ("SFDA") for the approval of clinical study of Nifeviroc (尼非韋羅), which is a new drug for the treatment of AIDS, Vincristine liposome (長春新鹼脂質體), which is a new drug for the treatment of malignant lymphadenoma (惡性淋巴瘤) and leucocythemia (白血病), and Duxorubicon liposome (鹽酸多柔比星脂質體) for the treatment of breast cancer.

- Four products, namely Unsweet Sugar (淡糖) for the treatment of diabetes, Recombinant Human Tumor Necrosis Recipient Fc Fusion Protein (Etanercept) for the treatment of arthritis, Hemporfin, a photodynamic therapy drug for the treatment of macular degeneration and Duxorubicon liposome for injection (鹽酸多柔比星脂質體注射液) for the treatment of Kaposi's sarcoma (卡泊氏肉瘤), have been approved by the SFDA to enter into the stage of clinical study.

- Recombinant human lymphotoxin α-derivatives, a new drug for the treatment of tumors, has been approved by the SFDA to enter into stage II of clinical study.

- Clinical study of Aminolevulinic Acid Hydrochloride (ALA) (鹽酸氨酮戊酸) for the treatment of condyloma acuminata (尖銳濕疣) has been completed, and application has been made to the SFDA for New Drug Certificate and Production Permit.

- Application has been made to the SFDA for the Production Permit of medical diagnostic product — Eugene HLA-SSO Flow-Matrix genotyping kit (優諾基 HLA-SSO 流式螢光微珠基因分型試劑盒).

The major drugs researched and developed by the Group up to the end of 2005 are summarized as follows:

Technical platform	**Project name**	**Application**	**Progress made**
Genetic engineering drugs	Recombinant tissue type plasminogen activator (r-tPA)	Heart infarction	Has been transferred, retaining technical commission
	Recombinant human parathyroid hormone derivatives (rhPTH)	Osteoporosis	Has been approved to enter into clinical study
	Recombinant human lymphotoxin α-derivatives	Tumor	Has been approved to enter into stage II clinical study
	Recombinant human interleukin-1 receptor antagonist (rhIL-1Ra)	Arthritis	Has been approved to enter into clinical study
	Recombinant Human Tumor Necrosis Recipient Fc Fusion Protein (Etanercept)	Arthritis	Has been approved to enter into clinical study; has transferred domestic and overseas rights respectively, retaining technical commission
Photodynamic therapy drugs	ALA (鹽酸氨酮戊酸)	Condyloma acuminata	Has completed clinical study; has applied for New Drug Certificate and Production Permit
	Hemporfin	Port wine stain	Has been approved to enter into clinical study
	Deuteporfin	Tumors	Has completed pre-clinical study

Technical platform	Project name	Application	Progress made
Liposome drugs	Duxorubicon liposome (鹽酸多柔比星脂質體)	Tumors	Has been approved to enter into clinical study
	Vincristine liposome (長春新鹼脂質體)	Tumors	Has applied to enter into clinical study
	Amphotericin-B liposome (兩性霉素 B脂質體)	Dermatitis, epiphyte infection	Has completed pre-clinical study
Others	Down's Syndrome antenatal screening system	Down's Syndrome	Has been launched for sale
	Eugene HLA-SSO Flow-Matrix Genotyping Kit	Genotyping	Has applied for Production Permit
	Melberry root alkaloid tablets (桑根鹼片)	Diabetes	Has been approved to enter into clinical study
	Unsweet Sugar	Diabetes	Has been approved to enter into clinical study
	Nifeviroc	Diabetes	Has applied for clinical study

Note: Projects which have been transferred and the Group has no subsequent interests are not within the above range

In respect of technology transfers, the Group is actively exploring for overseas markets. In February 2005, subsequent to the transfer of the overseas rights of a technology to a company in Taiwan, the Group transferred the Mainland rights of the technology to a company in the PRC for a consideration of RMB17,000,000, retaining a certain proportion of the sales revenue of the product. The Group has strategically transferred the Mainland rights and overseas rights of the R&D project of different companies, which assisted the Group to obtain the greatest benefit from the project.

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 1 Patent Cooperation Treaty (PCT) patent. As at 31st December 2005, the Group has applied for 32 intention patents in aggregate, and has been granted 10 invention patents.

In respect of commercialization, the Group is dedicated to the marketing of medical diagnostic products series, and has obtained 31 medical diagnostic product Medical Device Registration Certificates during the period under review, making the medical diagnostic product Medical Registration Certificates totaling to 44. The Group is fully committed to the exploration of medical diagnostic product markets, including the Down's Syndrome antenatal screening system.

Since its establishment, the Group has always been complying with the industrial policies of the State, improving its capacity of developing new drugs, and has obtained the full support by the State, Shanghai municipality and the People's Government of Pudong New District. During the period under review, the Group has obtained the following supports and awards:

- The Group obtained grants from the various levels of government on research and development projects totaling RMB3,600,000.

- Having been appraised by the People's Government of Shanghai, the Company has become the major project undertaking entity for the Shanghai City Construction with Technology, and the Company's "Development and commercialization of target drugs for tumors and other hyperblastosis" project has obtained supports for an amount of RMB30 million in respect of the Shanghai City Construction with Technology project fund, of which RMB21 million is in the form of interest-free loans, and RMB9 million will be a subsidy upon the completion of the project. The project is for a term of three years, and is aimed at supporting major industrial technology key projects.

- After the assessment by the People's Government of Pudong New District, the Company obtained the support of "Perspective Project" project fund of Pudong New District for a term of three years. The company is allowed to make a loan of RMB20 million, with the interest to be compensated. The "Perspective Project" is aimed at providing support to technology enterprises having intellectual property rights, so as to expedite its commercialization process and enhance its innovative capability, in order to actively participate in international competition.

- The Group was accredited with 2005 "Enterprise Technology Innovative Award" by Zhangjiang High-tech Park.

FUTURE PROSPECTS

The Group has been taking the innovative R&D of new drugs as its core positioning since its establishment, and has achieved certain results. The "Summary of the State medium-long-term scientific and technology development plan (2006-2020)" recently published has confirmed the direction of the China special way of self innovation, and has also affirmed supports to those encouraged enterprises to become technological innovative bodies. It's calling for creating further conditions, optimizing environment, deepening reforms, and truly strengthening the dynamics and motives of enterprise technological innovation. Under this broad environment, the Group will certainly obtain more and better development opportunities.

After nearly a decade's R&D, the Group has a large number of drugs which are at the key point of being commercialized. Therefore, the Group is now undergoing the process of conversion from purely R&D to a combination of R&D and commercialization. In the future, the Group will focus its resources in both aspects of R&D and commercialization.

- **R&D**

  Over the past years, the Group has accumulated extensive experience in R&D, and has taken a leading position in the pharmaceutical industry in the PRC. The Group has

established 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 the future, the Group will devote efforts to in R&D of projects with proprietary intellectual property rights.

R&D of the Group will still be focused on genetic engineering drugs, photodynamic drugs, liposome drugs, and small molecule chemical drugs. In particular, among these sectors, drugs for the treatment of dermal diseases and tumors will be of the most importance.

The clinical study in respect of the photodynamic new drug ALA (鹽酸氨酮戊酸) for the treatment of Condyloma acuminata has been completed, and application has been made for its New Drug Certificate and Production Permit. Clinical study on Duxorubicon liposome (鹽酸多柔比星脂質體) for the treatment of tumors has been commenced, and the clinical study and application for Production Permit are expected to be completed during the year. These two products are projects to be commercialized soon.

The Group has many projects approved to enter into clinical studyes, and future clinical study will also be a key point. The Group will recruit more expertise, and actively and effectively carry out the clinical study.

- **Commercialization**

The Group's commercialization activities at present are mainly based on medical diagnostic products. The Group will continue to promote medical diagnostic products, including Down's Syndrome antenatal screening system, HLA genotyping chips, with the aim to further expand market shares.

To keep in line with the key direction of the Group's R&D, the Group will gradually increase the commercialization of the drugs for the treatment of dermal diseases and tumors from year 2006. The Group has arranged three drug product lines on each direction, and will gradually launch to the market by stages in the next few years, so as to form a product series package on these two directions:

- **Dermal disease drugs**

In respect of the commercialization of dermal disease drugs, the clinical study of photodynamic new drug ALA (鹽酸氨酮戊酸) for the treatment of Condyloma acuminata (尖銳濕疣) has been completed, and application has been made for its New Drug Certificate and Production Permit. The drug is expected to be launched before the end of 2006. This will be the first drug commercialized in this direction. Condyloma acuminata (尖銳濕疣) is one of the most common sexual contagious diseases in the modern society, with the morbidity being 20%-30% of all the venereal disease patients,

ranking No. 2 or 3. According to the estimations of WHO in 2005, there are actually 16 million to 20 million new venereal disease cases in China every year, while new patient numbers of condyloma acuminate is 3 million — 6 million every year. It can be seen that this drug has a tremendous market capacity.

Subsequent drugs include Hemporfin and Amphotericin-B liposome (兩性霉素B脂質體). Hemporfin, a photodynamic drug for the treatment of port wine stains has now been approved to enter into clinical study. While the pre-clinical study of Amphotericin-B liposome (兩性霉素B脂質體) for the treatment of intractable dermatitis and Mycotic infection (真菌感染) has been completed, and application will be made soon.

- **Tumor treatment drugs**

In respect of the commercialization of drugs for the treatment of tumors, clinical study on Duxorubicon liposome (鹽酸多柔比星脂質體) for the treatment of tumors has been commenced, and the clinical study and application for Production Permit are expected to be completed during the year, and is anticipated to be launched by 2007. This is the first drug in the direction of such commercialization. The drug is specially targeted at tumors such as breast cancer, which has become No. 1 in female tumor morbidity. According to the estimations of WHO, in 2005, there were approximately 7.6 million people died of various cancers in the world, of which, 500,000 died of breast cancer. According to the estimations, there are approximately 200,000 new discoveries of breast cancer in the PRC. The market capacity of the drug is tremendous.

Subsequent drugs include Vincristine liposome (長春新鹼脂質體) and lymphotoxin α-derivatives. Application has been made for the clinical study for Vincristine liposome (長春新鹼脂質體) for the treatment of malignant tumors, while lymphotoxin α-derivatives for the treatment of tumors has been approved to enter into stage II of the clinical study.

The estimated schedule for launching the drugs in the next few years is as follows:

Name of drug	**Indications**	**Estimated Launching time***
ALA (鹽酸氨酮戊酸)	Condyloma acuminata	Before end of 2006
Duxorubicon liposome (鹽酸多柔比星脂質體)	Tumors	2007
Amphotericin-B liposome (兩性霉素 B脂質體)	Mycotic infection	2008
Hemporfin	Port wine stain	2009
Vincristine liposome (長春新鹼脂質體)	Tumors	2010
Lymphotoxin α-derivatives	Tumors	2011

* The estimated launching time is based on the progress, and there is no assurance of its absolute accuracy. If other drugs are progressing more smoothly, they may replace any of the above drugs for market launch and sale.

In order to be in line with the production of the first batch of the two drugs in the two commercialization directions, the Group's reforms to the production sites for these two products have been basically completed, so as to cope with the GMP certification and market launch of these two products.

Other than the above key commercialization directions, the remaining projects will be transferred. The projects transferred by the Group not only takes the obtaining of transfer fees as its sole target, but also to persistently obtain a certain proportion of technical fees in the future sales, which can bring a long-term stable revenue to the Group. Under feasible circumstances, the Group realizes the maximizing of its values by the transfer of the overseas rights of its non-key development projects.

In respect of commercialization, the Group has the production and sales of diagnostic reagents, HLA genetic chips and Down's Syndrome antenatal screening system, in addition to dermal disease drugs and tumor treatment drugs which have been approved for production, the Group will soon expedite to complete the conversion from purely R&D to both R&D and commercialization. The Group has now started to establish its marketing system, so as to finalize the Group's complete function in the organic combination from R&D, product manufacture to marketing, enabling the Company to progress to a better development stage.

CORPORATE GOVERNANCE

The Board has reviewed its corporate governance documents and is of the view that such documents have incorporated most of the Principles and Code Provisions in the "Code of Corporate Governance Practice" of the Listing Rules of The Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Code"). 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 that the provisions as set out in the "Code":

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

- Board meetings held during 2005 exceeded four times.

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

- The chairman and the general manager is the same person at the same time. 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.

RIGHTS OF DIRECTORS, CHIEF EXECUTIVE AND SUPERVISORS IN PURCHASING SHARES OR DEBENTURES

None of the Directors, chief executive or Supervisors or their spouse or children of age under 18 has been authorized by the Company or any subsidiary any right to purchase shares or debentures in the Company or any other body corporate, or have exercised such rights within 2005.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

The Group has not entered into any material contracts in which the Group's Directors, Supervisors have direct or indirect interests during any time in 2005.

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

As at 31 December 2005, 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 2005, the persons other than a director, chief executive or supervisor of the Company who have interests and / or short positions in the shares or underlying shares of the Company subject to disclosure under Divisions 2 and 3 of Part XV of the SFO are listed as follows (the interests in shares and / 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%
SIIC Medical Science and Technology (Group) Limited	H Shares	4,708,000 (L)	Beneficial Owner	Corporate	2.38%	0.66%

COMPETING INTERESTS

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

Shanghai Pharmaceutical Co., Ltd.

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%
Jingbo Yatai Bio-technology Co., Ltd (寧波亞太生物技術有限公司)	Drug manufacturing	89%
Shanghai Qingping Pharmaceutical Co., Ltd. (上海青平藥業有限公司)	Drug manufacturing	39%
Shanghai Hefeng Pharmaceutical Co., Ltd. (上海禾豐制藥有限公司)	Drug manufacturing	50%
Shanghai Fuda Pharmaceutical Co., Ltd. (上海福達制藥有限公司)	Drug manufacturing	70%
Shanghai Huashi Pharmaceutical Co., Ltd. (上海華氏制藥有限公司)	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)	Drug manufacturing	80.55%

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

Investee company	Nature of business	Shareholding interests
Meilian Biotechnology Company (美聯生物技術公司)	R&D of genetic pattern	49.47%

DIRECTORS' SECURITIES TRANSACTIONS

The Company has re-formulated the Code for Securities Transactions by Directors of Listed Issuers, and passed it on 10 August 2005, with the terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Directors and relevant employees shall be bound under this Code. Supervisors' securities transactions apply to the regulations for the Directors.

Having made enquiries, all Directors, Supervisors and relevant employees have complied with the relevant requirements in 2005.

DETAILS OF OPTIONS GRANTED BY THE COMPANY

On 23 June 2002, the Company adopted a share option scheme (the "Share Option Scheme") under which the executive Directors or full-time employees of the Company or its subsidiaries or any of their respective associates may be granted options to subscribe for shares of the Company subject to the terms and conditions stipulated in the Share Option Scheme.

As at the date of this report, no option has been granted or agreed to be granted to any executive director or full-time employee of the Company or its subsidiaries or any of their respective associates under the Share Option Scheme.

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 2005.

PRE-EMPTIVE RIGHTS

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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 made discussions on the Group's audited 2005 annual results before proposing to the Board for approval.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers. 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 report, the Board comprises:

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

Shanghai, the PRC, 22 March 2006

This announcement will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting.