



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

INTERIM REPORT

For the six months ended 30 June 2010

* *For identification purpose only*

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

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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 hereto presents the unaudited consolidated interim results of the Company together with its subsidiaries (collectively the “Group”) for the six months ended 30 June 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review for the six months ended 30 June 2010

For the six months ended 30 June 2010, the Group recorded a turnover of approximately RMB35,898,000, comparing to a turnover of approximately RMB20,904,000 for the same period in 2009. This represents an increase of 72%.

Of the total turnover of the Group for the first half of 2010, RMB800,000 or 2% of the total turnover came from the income of technology transfer, and the rest approximately RMB35,098,000 or 98% of the total turnover was derived from the sale of medical products, the provision of related ancillary services and the income from the amortization of the exclusive distribution rights. In contrast, of the total turnover of the same period last year, RMB18,904,000 or 90% of total turnover was derived from the sale of medical products and the provision of related ancillary services and the income from the amortization of the exclusive distribution rights, and RMB2,000,000 or 10% of total turnover came from the income of technology transfer. The new product, ALA (艾拉®), which the Group launched during the second half of 2007, has now entered into a rapidly developed selling cycle, after over two year’s market exploration and expansion of distribution channel. In addition, Libod® (里葆多®), which the Group had launched to the market during the second half of 2009, has contributed significant revenue to the Group. These are two important factors that lead to the continuous increase of turnover of the Group.

For the six months ended 30 June 2010, cost of sales of the Group was approximately RMB8,033,000, comparing to RMB6,535,000 for the same period in 2009. Gross profit margin has grown to 78% from 69% for that of the same period in 2009.

Within the period under review, operating loss of the Group was approximately RMB2,506,000, compared to RMB8,473,000 for that of last year, which represents a decrease of 70%. Of the various expenses presented before operating loss, research and development (“R&D”) costs, distribution and marketing costs, administrative expenses and other operating expenses have increased from the same period in 2009, respectively, whereas other income has also increased from the same period in 2009.

A loss attributable to shareholders of the Company of approximately RMB2,301,000 was recorded in the unaudited interim consolidated income statements for the six months ended 30 June 2010, whereas the loss attributable to shareholders of the Company for the same period in 2009 was RMB9,355,000, representing a decrease of 75%.

BUSINESS REVIEW

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

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

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

Pre-clinical study for 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 is about to be submitted at the end of this year. Application for a PCT patent for the project has been made.

With regard to patents, the Group has always been endeavoring in protecting the intellectual property rights of its innovative drugs and R&D achievements. Within the period under review, the Group has been granted 1 invention patent.

In respect of commercialization, since the launch of ALA (艾拉®) for the treatment of dermal HPV infectious disease and proliferative disease as represented by Condyloma acuminata, and Libod® (里葆多®) for the treatment of tumors, sales revenue of the products has been increasing steadily. ALA (艾拉®) has been approved as Shanghai Patent New Product and Libod® (里葆多®) has been accredited as Shanghai Hi-Tech Result Transfer Project.

FUTURE PROSPECTS

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

In the area of commercialization, the Group has realized production and sales on diagnostic products, ALA, and Libod® for the treatment of tumor. The revenue has been increasing steadily. It is expected that the future sales will be increasing extensively. The Group has successfully accomplished the transformation from pure R&D to a combination of R&D and commercialization. An intact system of R&D, production, sales and marketing combined orderly has been formed. The Group will be able to progress to a better development stage.

DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

CHARGE ON ASSETS

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

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

BANKING FACILITIES

Aided by the “Technology and Education Promoting Shanghai” project, the Group took a loan of RMB11,000,000 and a loan of RMB10,000,000 on 1 March 2006 and 6 July 2007, respectively. Both of the two loans are due for repayment on 31 December 2011. According to the loan contract, certain interest has to be paid if the loan is repaid between 1 January 2010 to 31 December 2011.

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

On 17 September and 23 October 2009, the Group took two bank loans of RMB12,000,000 and RMB20,000,000, respectively. Redemption date for the first loan is 2 September 2010. The second loan is to be repaid within three years on an equal amount basis, with the due dates being 22 October 2010, 2011 and 2012, respectively.

MATERIAL INVESTMENT

The Company made an announcement on 7 March 2008 that it would cooperate with a wholly owned subsidiary of Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. to construct the industrial space next to the Company's existing site. This is a connected and discloseable transaction, which has been approved on the EGM held on 23 May 2008. The transaction is under progress as at 30 June 2010.

As at 20 June 2010, the plant in Taizhou is under construction.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations and investing activities with internally generated financial resources, proceeds from the listing of the Company's shares on the Hong Kong GEM Board in August 2002, and interest-free and interest-subsidized commercial loans supported by the municipal government authorities. As at 30 June 2010, the Group had outstanding loans which are supported by the government of RMB 64,650,000, of which RMB11,650,000 is unsecured and interest-free.

As at 30 June 2010, the Group had cash and cash equivalents of approximately RMB 92,755,000.

The Group's gearing ratio as at 30 June 2010 was 1.13 (31 December 2009: 0.96) which is calculated based on the Group's total liabilities of RMB151,232,000 (31 December 2009: RMB130,463,000) and capital and reserves attributable to shareholders of the Company of RMB133,261,000 (31 December 2009: RMB135,689,000).

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

EMPLOYEES AND SALARIES

As at 30 June 2010, the Group had a total of 219 employees, comparing with 213 employees as at 30 June 2009. Staff costs including directors' remuneration for the six months ended 30 June 2010 and 2009 were RMB13,552,000 and RMB11,385,000 respectively. Salaries and benefits of employees of the Group are kept at a competitive level and employees are rewarded on a performance related basis with general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory social welfare plans, are also provided to employees.

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

As at 30 June 2010, the interests (including interests in shares and / or short positions) of the Directors, the Chief Executive and the Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, (a) as notified to the Company and the Stock Exchange pursuant to: Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO"); (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

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

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

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 June 2010, 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	Percentage in the respective		Percentage in total share capital
				Type of interest	class of share capital	
Shanghai Industrial Investment (Holdings) Co., Ltd.	Domestic Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	27.26%	29.60%
	H Shares	70,564,000 (L)			35.64%	
Shanghai Pharmaceutical Holding Co., Ltd.	Domestic Shares	139,578,560 (L)	Beneficial Owner	Corporate	27.26%	19.66%
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%
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)				
Fudan University	Domestic Shares	30,636,286 (L)	Beneficial Owner	Corporate	5.98%	4.31%

COMPETING INTERESTS

Save as disclosed in the following table, none of the Directors, or the management shareholders of the Company, nor their respective associates had any interest in a business which competes or may compete with the business of the Group.

Shanghai Pharmaceutical Co., Ltd.

Investee company	Nature of business	Shareholding interests
Shanghai Huashi Pharmaceutical Hi-Tech Industrial Development Co., Ltd. (上海華氏醫藥高科技實業發展有限公司)	R&D of drugs	100%

China General Technology (Group) Holding, Ltd.

Investee company	Nature of business	Shareholding interests
Hainan Sanyang Pharmaceutical Co., Ltd. (海南三洋藥業有限公司)	Drug manufacturing	80.55%

SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2010, 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 2010.

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 2010.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the management team of the Company. The audit committee reviewed the interim report for the six months ended 30 June 2010 before proposing to the Board for approval.

CORPORATE GOVERNANCE

The Board of Directors has reviewed the documents relating to corporate governance policies adopted by the Company and considered that it had complied with most of the principles and codes set out in the Code on Corporate Governance Practices (the "Code") under the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited. On some aspects, the Company has adopted a code on corporate governance no less exacting than the provisions set out in the Code. The areas that adopted by the Company being stricter than the Code or deviated from the Code are as follows:

The main provision which is stricter than the Code:

- All members of the Audit Committee are independent non-executive directors.

The areas which are deviated from the Code:

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

**UNAUDITED INTERIM CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2010	2009	2010	2009
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	3	22,489	11,786	35,898	20,904
Cost of sales		(4,286)	(3,739)	(8,033)	(6,535)
Gross profit		18,203	8,047	27,865	14,369
Other income		2,701	2,878	4,605	3,914
Research and development costs		(6,367)	(4,583)	(10,757)	(10,443)
Distribution and marketing costs		(10,655)	(5,768)	(18,510)	(10,405)
Administrative expenses		(2,979)	(2,692)	(5,657)	(5,634)
Other operating expenses		(25)	(20)	(52)	(274)
Operating gain/(loss)	4	878	(2,138)	(2,506)	(8,473)
Finance costs		(757)	(683)	(1,356)	(1,359)
Income/(loss) before income tax		121	(2,821)	(3,862)	(9,832)
Income tax expense	5	—	—	—	—
Income/(loss) for the period		121	(2,821)	(3,862)	(9,832)
Other comprehensive income					
Available-for-sale investments		—	1,818	—	1,818
Total comprehensive income/(loss) for the year		121	(1,003)	(3,862)	(8,014)

	Unaudited Three months ended 30 June 2010		Unaudited Six months ended 30 June 2010	
	2009	2009	2009	2009
Note	RMB'000	RMB'000	RMB'000	RMB'000
Income/(loss) attributable to:				
Shareholders of the Company	1,019	(2,774)	(2,301)	(9,355)
Minority interests	(898)	(47)	(1,561)	(477)
	<u>121</u>	<u>(2,821)</u>	<u>(3,862)</u>	<u>(9,832)</u>
Total comprehensive income/(loss) attributable to:				
Shareholders of the Company	1,019	(1,111)	(2,301)	(7,692)
Minority interests	(898)	108	(1,561)	(322)
	<u>121</u>	<u>(1,003)</u>	<u>(3,862)</u>	<u>(8,014)</u>
Basic and diluted loss per share for loss attributable to the shareholders of the Company (RMB)	7	<u>0.0014</u>	<u>(0.0039)</u>	<u>(0.0032)</u>
		<u>(0.0132)</u>		

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET

		Unaudited	Audited
		30 June	31 December
		2009	2008
	<i>Note</i>	RMB'000	RMB'000
Non-current assets			
Leasehold land payments	8	42,336	42,799
Property, plant and equipment	8	78,228	74,334
Prepayment for construction		22,112	27,652
Technical know-how	8	102	110
Deferred development costs	8	4,892	5,565
Available-for-sale investments		36	129
Deferred income tax assets		3,856	3,856
		<u>151,562</u>	<u>154,445</u>
Current assets			
Inventories		19,653	14,625
Trade receivables	9	32,762	26,929
Other receivables, deposits and prepayments		3,222	1,028
Assets held-for-sale		14,936	14,906
Cash and cash equivalents		92,755	86,898
		<u>163,328</u>	<u>144,386</u>
Total assets		<u>314,890</u>	<u>298,831</u>

		Unaudited	Audited
		30 June	31 December
		2009	2008
	<i>Note</i>	RMB'000	RMB'000
Non-current liabilities			
Borrowing	11	13,330	13,330
Loans from government authorities	12	31,000	31,000
Deferred revenue		12,353	14,118
		<u>56,683</u>	<u>58,448</u>
Current liabilities			
Trade payables	10	2,183	1,342
Other payables and accruals		23,543	22,576
Deferred revenue		25,469	11,703
Loans from government authorities	12	1,650	1,650
Amount due to a shareholder		1,500	1,500
Amount due to a related party		21,534	14,574
Borrowings	11	18,670	18,670
		<u>94,549</u>	<u>72,015</u>
Total liabilities		<u>151,232</u>	<u>130,463</u>
Capital and reserves attributable to shareholders of the Company			
Share capital		71,000	71,000
Reserves		62,261	64,689
		<u>133,261</u>	<u>135,689</u>
Minority interests		<u>30,397</u>	<u>32,679</u>
Total equity		<u>163,658</u>	<u>168,368</u>
Total equity and liabilities		<u>314,890</u>	<u>298,831</u>
Net current assets		<u>68,779</u>	<u>72,371</u>
Total assets less current liabilities		<u>220,341</u>	<u>226,816</u>

UNAUDITED INTERIM CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June 2010 RMB'000	Unaudited Six months ended 30 June 2009 RMB'000
Operating activities		
Cash generated/(used) in operations	8,216	(5,939)
Interest paid	(1,356)	(764)
Interest received	132	224
	6,992	(6,479)
Investing activities		
Purchase of property, plant and equipment	(983)	(378)
Purchase of shares from minority equity holder	(848)	—
Withdrawal of term deposits with maturities of three to twelve months	(2,679)	(1,854)
Proceeds from disposal of property, plant and equipment	86	7
Proceeds from disposal of available- for-sale investments	3,289	3,766
	(1,135)	1,541
Financing activities		
Net cash generated from financing activities	—	—
	5,857	(4,938)
Net (decrease)/increase in cash and cash equivalents		
Cash and cash equivalents at beginning of the period	86,898	49,351
Exchange gain on cash and cash equivalents	—	16
	92,755	44,429
Cash and Cash equivalents at end of the period	92,755	44,429

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to shareholders of the Company				Minority interests	Total
	Share capital	Capital accumulation reserve	Statutory common reserve fund	Accumulated losses		
					RMB'000	RMB'000
Balance at 1 January 2009	71,000	141,945	2,829	(142,187)	2,296	75,883
Comprehensive loss						
Loss for the period	—	—	—	(9,355)	(477)	(9,832)
Other comprehensive income						
Available-for-sale investment	—	1,663	—	—	155	1,818
Total comprehensive loss	—	1,663	—	(9,355)	(322)	(8,014)
Balance at 30 June 2009	71,000	143,608	2,829	(151,542)	1,974	67,869
Balance at 1 January 2010	71,000	211,367	2,829	(149,507)	32,679	168,368
Comprehensive loss						
Loss for the period	—	—	—	(2,301)	(1,561)	(3,862)
Total comprehensive loss	—	—	—	(2,301)	(1,561)	(3,862)
Transactions with owners						
Acquisition of minority interests (a)	—	(127)	—	—	(721)	(848)
Total transactions with owners	—	(127)	—	—	(721)	(848)
Balance at 30 June 2010	71,000	211,240	2,829	(151,808)	30,397	163,658

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

SELECTED NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Background

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") was established in the People's Republic of China ("PRC") on 11 November 1996 as a limited liability company with an initial registered capital of RMB5,295,000.

Pursuant to a series of capital injections on 10 November 1997, 11 May 2000, and 12 September 2000 from the existing or the then existing shareholders of the Company and the capitalisation of reserves of the Company on 11 December 1997 and 20 October 2000, the registered capital of the Company was increased from RMB5,295,000 to RMB53,000,000.

On 8 November 2000, the Company was transformed into a joint stock company with limited liability.

On 20 January 2002, all of the shares of the Company, being 53,000,000 ordinary shares with a par value of RMB1.00 each, were subdivided into 530,000,000 ordinary shares with a par value of RMB0.10 each.

On 13 August 2002, the Company commenced the trading of the newly issued 198,000,000 ordinary shares ("H shares") of RMB0.10 each on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including 18,000,000 H Shares converted from Domestic Shares. Therefore, the registered capital of the Company was increased to RMB71,000,000.

As of the date of this report, the Company has direct interests of 68.75%, 65% and 90.91% in its subsidiaries Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. ("Morgan-Tan"), Shanghai Ba Dian Medicine Co., Ltd. ("Ba Dian") and Taizhou pharmaceutical, respectively.

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

2. Accounting policies and basis of preparation

The unaudited interim financial statements of the Group has 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 2010 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, unless otherwise stated.

The following new standards, amendments to standards and interpretations are mandatory for accounting periods on or after 1 January 2010.

IAS 27 (Revised)	Consolidated and separate financial statements
IAS 39 (Amendment)	Eligible hedge items
IFRS 1 (Revised)	First-time adoption of IFRSs
IFRS 1 (Amendment)	Additional exemptions for first-time adopters
IFRS 2 (Amendments)	Group cash-settled share-based payment transactions
IFRS 3 (Revised)	Business combinations
IFRIC 17	Distribution of non-cash assets to owners

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

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

IAS 24 (Revised)	Related party disclosures
IAS 32 (Amendment)	Classification of rights issue
Amendment to IFRS 1	Limited exemption from comparative IFRS 7 disclosures for first-time adopters
IFRS 9	Financial Instruments
Amendment to IFRIC 14	Prepayments of a minimum funding requirement
IFRIC 19	Extinguishing financial liabilities with equity instruments

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

3. Turnover and segmental information

An analysis of the Group's turnover and contribution to operating loss by principal activities is as follows:

	Unaudited three months ended 30 June 2010			Unaudited three months ended 30 June 2009		
	Sales of medical products and Research and development activities <i>RMB'000</i>	the provision of related ancillary services <i>RMB'000</i>	Total <i>RMB'000</i>	Research and development activities <i>RMB'000</i>	Sales of medical products and the provision of related ancillary services <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover	<u>800</u>	<u>21,689</u>	<u>22,489</u>	<u>—</u>	<u>11,786</u>	<u>11,786</u>
Segment (loss)/gain	(4,215)	6,748	2,533	(3,163)	2,279	(884)
Unallocated income			592			182
Unallocated loss			(3,004)			(2,119)
Gain/(Loss) before income tax			121			(2,821)
Income tax expense			—			—
Gain/(Loss) for the period			<u>121</u>			<u>(2,821)</u>

	Unaudited six months ended 30 June 2010			Unaudited six months ended 30 June 2009		
	Research and development activities RMB'000	Sales of medical products and the provision of related ancillary services RMB'000	Total RMB'000	Research and development activities RMB'000	Sales of medical products and the provision of related ancillary services RMB'000	Total RMB'000
Turnover	<u>800</u>	<u>35,098</u>	<u>35,898</u>	<u>2,000</u>	<u>18,904</u>	<u>20,904</u>
Segment (loss)/gain	(7,647)	8,555	908	(6,533)	1,964	(4,569)
Unallocated income			939			389
Unallocated loss			(5,709)			(5,652)
Loss before income tax			(3,862)			(9,832)
Income tax expense			—			—
Loss for the period			<u>(3,862)</u>			<u>(9,832)</u>

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

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

4. Operating Gain/(loss)

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

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Amortisation of leasehold land payments	232	61	463	121
Less: amount capitalised in construction in progress	(171)	—	(342)	—
	61	61	121	121
Amortisation of deferred costs (included in 'Cost of sales')	337	435	673	1,012
Amortisation of technical know-how (included in 'Research and development costs')	—	53	—	106
Amortisation of technical know-how (included in 'Administrative expenses')	4	4	8	8
	4	57	8	114
Reversal of impairment of receivables	(15)	—	(15)	(44)
Write-down of inventories	221	183	442	365
Cost of inventories sold	3,677	3,021	7,683	5,766
Depreciation of property, plant and equipment	1,300	1,293	2,591	2,581
(Gains)/losses on disposal of property, plant and equipment	(65)	4	(48)	16
Operating lease rentals in respect of land and buildings	99	99	198	198
Research and development costs, excluding employee benefit expenses	4,904	3,009	6,955	7,295
Employee benefit expenses	6,201	5,770	13,522	11,385
Gains on disposal of available-for-sale investments	(318)	(940)	(516)	(24)
Marketing and sales promotion	7,114	2,634	10,585	4,954

5. Income tax

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Income tax	—	—	—	—

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

6. Dividends

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

7. Loss per share

The calculation of the basic loss per share for the three months ended 30 June 2010 and 30 June 2009 were based on the unaudited income attributable to shareholders of the Company of approximately RMB1,019,000 (three months ended 30 June 2009: loss attributable to shareholders of the Company of approximately RMB2,774,000) and total shares in issue of 710,000,000 shares (three months ended 30 June 2009: 710,000,000 shares) during the three months ended 30 June 2010.

The calculation of the basic loss per share for the six months ended 30 June 2010 and 30 June 2009 were based on the unaudited loss attributable to shareholders of the Company of approximately RMB2,301,000 (six months ended 30 June 2009: loss attributable to shareholders of the Company of approximately RMB9,355,000) and total shares in issue of 710,000,000 shares (six months ended 30 June 2009: 710,000,000 shares) during the six months ended 30 June 2010.

Diluted loss per share have not been calculated for the three months or six months ended 30 June 2010 and 2009 respectively as there were no dilutive potential ordinary shares during those periods.

8. 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 development costs <i>RMB'000</i>
Cost				
At 1 January 2010	44,154	107,752	3,822	7,286
Additions	—	6,523	—	—
Disposals	—	(340)	—	—
At 30 June 2010	44,154	113,935	3,822	7,286
Accumulated amortisation / depreciation				
At 1 January 2010	1,355	33,418	3,712	1,721
Charge for the period	463	2,591	8	673
Disposals	—	(302)	—	—
At 30 June 2010	1,818	35,707	3,720	2,394
Net book value				
At 30 June 2010	42,336	78,228	102	4,892
Cost				
At 1 January 2009	11,988	89,503	9,047	18,159
Additions	—	13,318	—	—
Disposals	—	(328)	—	—
At 30 June 2009	11,988	102,493	9,047	18,159
Accumulated amortisation / depreciation				
At 1 January 2009	1,056	28,808	8,801	11,897
Charge for the period	121	2,581	114	1,012
Disposals	—	(91)	—	—
At 30 June 2009	1,177	31,298	8,915	12,909
Net book value				
At 30 June 2009	10,811	71,195	132	5,250

9. Trade receivables

	Unaudited	Audited
	30 June	31 December
	2010	2009
	RMB'000	RMB'000
Accounts receivables (Note(a))	32,276	26,904
Notes receivable (Note(b))	486	25
	<u>32,762</u>	<u>26,929</u>

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

	Unaudited	Audited
	30 June	31 December
	2010	2009
	RMB'000	RMB'000
Within credit term	14,081	6,837
Overdue 0 to 30 days	4,903	3,222
Overdue 31 days to 60 days	2,531	7,176
Overdue 61 days to 90 days	3,101	3,518
Overdue over 90 days but less than one year	8,033	6,424
Overdue over one year	444	547
	<u>33,093</u>	<u>27,724</u>
Provision	<u>(817)</u>	<u>(820)</u>
	<u>32,276</u>	<u>26,904</u>

Customers are generally granted credit terms of 90 days.

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

10. Trade payables

Details of the aging analysis are as follows:

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Current to 30 days	1,758	636
31 days to 60 days	78	146
61 days to 90 days	28	62
Over 90 days but less than one year	54	165
Over one year	265	333
	<u>2,183</u>	<u>1,342</u>

11. Borrowings

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Non-current		
Long-term bank borrowings, secured	20,000	20,000
Less: current portion	<u>(6,670)</u>	<u>(6,670)</u>
	<u>13,330</u>	<u>13,330</u>
Current		
Short-term bank borrowings, secured	12,000	12,000
Current portion of long-term bank borrowings, secured	<u>6,670</u>	<u>6,670</u>
	<u>18,670</u>	<u>18,670</u>

Long-term bank borrowings of RMB20,000,000 as of 30 June 2010 bear an interest rate of 5.24% annually, among which RMB6,670,000 are due for repayment on 22 October 2010, RMB6,670,000 are due for repayment on 22 October 2011, and RMB 6,660,000 are due for repayment on 22 October 2012. The borrowings were secured by the leasehold land, plant and machinery of the Company.

Short-term bank borrowings of RMB12,000,000 as of 31 December 2009 are due for repayment on 2 September 2010, and bear an interest rate of 5.73% annually. The borrowings are guaranteed by a third party company. Such guarantee was secured by the pledge of new drug certificates and the contract of exclusive rights granted to a customer.

12. Loans from government authorities

The loans from government authorities are repayable as follows:

	Unaudited	Audited
	30 June	31 December
	2010	2009
	RMB'000	RMB'000
Within one year	1,650	1,650
Over one year	31,000	31,000
	<hr/> 32,650 <hr/>	<hr/> 32,650 <hr/>

13. Related party transactions

The Group made sales of medical products of RMB43,000 to Shanghai Pharmaceutical Holding Co., Ltd., a shareholder of the Company during the six months ended 30 June 2010 (six months ended 30 June 2009: RMB386,000).

On 26 February 2008, the Company and Shanghai Qi Du Sci & Tech Development Co., Ltd. ("Qi Du") entered into an agreement to jointly develop a construction project. For the six months ended 30 June 2010, the amount Qi Du paid on behalf of the Company for the initial project development is nil (six months ended 30 June 2009: RMB13,025,000).

By Order of the Board
Wang HaiBo
Chairman

As at the date thereof, the Board comprises:

Mr. Wang Hai Bo (*Executive Director*)
Mr. Su Yong (*Executive Director*)
Mr. Zhao Da Jun (*Executive Director*)
Ms. Fang Jing (*Non-executive Director*)
Mr. Zhou Jie (*Non-executive Director*)
Mr. Guo Jun Yu (*Non-executive Director*)
Mr. Hao Hong Quan (*Non-executive Director*)
Mr. Zhu Ke Qin (*Non-executive Director*)
Mr. Pan Fei (*Independent non-executive Director*)
Mr. Cheng Lin (*Independent non-executive Director*)
Mr. Weng De Zhang (*Independent non-executive Director*)

Shanghai, the PRC

10 August 2010