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 2012

* *For identification purpose only*

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

This report, for which the directors (the "Directors") of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Board here to present the unaudited consolidated interim results of the Company together with its subsidiaries (collectively the "Group") for the six months ended 30 June 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review for the six months ended 30 June 2012

For the six months ended 30 June 2012, the Group recorded a turnover of approximately RMB82,684,000, comparing to a turnover of approximately RMB39,044,000 for the same period in 2011. This represents an increase of 112%. Sales of ALA, the main product of the Group has contributed significant revenue to the Group during the period and its turnover increased about RMB25,251,000 from that of the corresponding period last year.

The total turnover for the six months ended 30 June 2012 came from the sale of medical products, revenue recognized from exclusive distribution rights. The source of total turnover for the six months ended 30 June 2011 was the same as that of this period of 2012. The new product, ALA (艾拉®), which the Group launched during the second half of 2007, has now entered into a rapidly developed selling cycle, after over three year's market exploration and expansion of distribution channel.

For the six months ended 30 June 2012, the Group incurred cost of sales of approximately RMB6,148,000, comparing to RMB10,845,000 for the same period in 2011. Gross profit margin has increased from 93% to 72% for the same period in 2011. The reduction of costs mainly benefits from the strict cost control that the Group executed. In addition, the Group sold ALA equipments and diagnostic products with low margin during the same period in 2011, which reduced the gross profit margin as a whole.

For the six months ended 30 June 2012, operating profit of the Group was approximately RMB18,462,000, comparing to RMB641,000 profit for the same period in 2011. Of the various costs and expenses presented before operating profit, research and development costs have increased by 20%, distribution and marketing costs have increased by 111%, administrative expenses have increased by 16%, and other income has increased by 3%, respectively, comparing with those of the same period in 2011. The increase of distribution and marketing costs is mainly due to the increase of its sales.

The profit attributable to the shareholders of the Company of approximately RMB16,205,000 was recorded in the unaudited consolidated statement of comprehensive income for the six months ended 30 June 2012, compared with the profit attributable to the shareholders of RMB3,353,000 for the same period in 2011.

Business review

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

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

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

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

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. Application for a PCT patent for the project has been made.

The Group has been actively protecting its intellectual property rights (IPR) on its innovative medicines and research results. During the period under review, the Group applied for 2 invention patents, and granted 5 invention patents.

In respect of commercialization, since the launch of ALA for the treatment of dermal HPV infectious disease and proliferative disease as represented by Condyloma acuminate, and Libod® for the treatment of tumors, sales revenue of the products has been increasing steadily. ALA has been accredited as No. 24 of the 100 Excellent Shanghai Hi-Tech Result Transfer Projects.

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, Eyan® and Libod®. The sales revenue has made significant increase over the same period of last year. It is expected that the future sales revenue 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 2012 (2011: Nil).

CHARGE ON ASSETS

On 20 March 2011, the Group put its leasehold land in pledge to obtain a bank loan. The mortgaging period depends on the time to redeem the loans.

On 1 March 2012, the Company put its leasehold land and plant in pledge to obtain a bank loan. The mortgaging period depends on the time to redeem the loans.

BANKING FACILITIES

On 1 March 2012, the Company took a bank loan of RMB20,000,000 from ICBC. The loan is due for repayment on 5 December 2012, which bore an interest rate of 6.888% annually. The loan is secured by the leasehold land and plant.

The Company took a bank loan of RMB20,000,000 from Bank of Nanjing on 23 May 2012. The loan is due for repayment on 22 May 2013 and the interest rate is 7.22% per annual.

On 17 October 2011, the Company took a bank loan of RMB20,000,000 from Bank of China. The loan is due for repayment in October 2012 and the interest rate is 6.56% per annual.

Aided by "Jiangsu Technology Results Transfer Project", a subsidiary of the Group, Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou Pharmaceutical"), took a loan of RMB10,000,000 from government authorities on 10 December 2010 which is due for repayment on 10 December 2013. The loan is unsecured.

On 21 March 2011, Taizhou Pharmaceutical took a long-term loan of RMB40,000,000 from Bank of Nanjing. The loan is due for repayment on 21 March 2014 for RMB 15,000,000 and on 21 March 2015 for RMB 25,000,000, and with the interest rate of 6.90% annually. The loan is secured by leasehold land.

On 24 May 2012, the subsidiary of the Group, Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. ("Morgan-Tan") took a bank loan of RMB500,000 from Bank of Nanjing. The loan is due for repayment on 23 November 2012 and the interest rate is 6.71% per annual.

MATERIAL INVESTMENT

The Company made an announcement on 7 March 2008 that it would cooperate with a wholly owned subsidiary of Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. to construct the industrial space next to the Company's existing site. This is a connected and discloseable transaction, which has been approved on the EGM held on 23 May 2008. The transfer is under progress as at 30 June 2012.

As at 30 June 2012, 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 2012, the Group had outstanding loans RMB112,150,000, of which RMB11,650,000 is unsecured, and RMB100,500,000 is secured bank loans, fiduciary loans or guaranteed by a third party company.

As at 30 June 2012, the Group had cash and cash equivalents of approximately RMB 115,249,000.

The Group's gearing ratio as at 30 June 2012 was 1.12 (31 December 2011: 0.93) which is calculated based on the Group's total liabilities of RMB209,553,000 (31 December 2011: RMB157,814,000) and capital and reserves attributable to shareholders of the Company of RMB186,274,000 (31 December 2011: RMB170,062,000).

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 2012, the Group had a total of 343 employees, comparing with 304 employees as at 30 June 2011. Staff costs including directors' remuneration for the six months ended 30 June 2012 and 2011 were RMB21,568,000 and RMB19,913,000 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 2012, the interests (including interests in shares and/or short positions) of the Directors, the Chief Executive and the Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, (a) as notified to the Company and the Stock Exchange pursuant to: Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO"); (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Name of Directors	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the respective class of share capital	Percentage in total share capital
Wang Hai Bo	Domestic Shares	51,886,430 (L)	Beneficial owner	Personal	10.13%	7.31%
Su Yong	Domestic Shares	18,312,860 (L)	Beneficial owner	Personal	3.58%	2.58%
Zhao Da Jun	Domestic Share	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 2012, the persons other than a director, chief executive or supervisor of the Company who have interests and/or short positions in the shares or underlying shares of the Company subject to disclosure under Divisions 2 and 3 of Part XV of the SFO are listed as follows (the interests in shares and short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, Chief Executive and Supervisors):

Name of substantial shareholders	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the respective class of share capital	Percentage in total share capital
Shanghai Industrial Investment (Holdings) Co., Ltd.	Domestic Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	27.26%	29.60%
	H Shares	70,564,000 (L)			35.64%	
Shanghai Pharmaceutical Holding Co., Ltd.	Domestic Shares	139,578,560 (L)	Beneficial Owner	Corporate	27.26%	29.60%
	H Shares	70,564,000 (L)			35.64%	
China 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	30,636,286 (L)	Interest of controlled corporation	Corporate	5.98%	4.31%
Shanghai Fudan Asset Operating Limited	Domestic Shares	30,636,286 (L)	Beneficial Owner	Corporate	5.98%	4.31%

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

SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2012, 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 2012.

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 2012.

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 2012 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 31st March 2012) and the Corporate Governance Code (effective from 1st 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. 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.

– The Company should establish the nomination committee before 1 April 2012 according to Code A.5.1. Due to the communication and coordination with all the parties, the Company set up this committee on 11 April 2012.

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Three months ended 30 June 2012 RMB'000	Unaudited Three months ended 30 June 2011 RMB'000	Unaudited Six months ended 30 June 2012 RMB'000	Unaudited Six months ended 30 June 2011 RMB'000
Turnover	3	**64,126**	29,582	**82,684**	39,044
Cost of sales		**(4,429)**	(8,090)	**(6,148)**	(10,845)
Gross profit		**59,697**	21,492	**76,536**	28,199
Other income	4	**7,464**	8,875	**16,223**	15,704
Research and development costs		**(4,846)**	(4,505)	**(10,766)**	(9,006)
Distribution and marketing costs		**(43,904)**	(18,421)	**(54,175)**	(25,650)
Administrative expenses		**(4,928)**	(4,703)	**(9,299)**	(8,009)
Other operating expenses		**(28)**	(575)	**(57)**	(597)
Operating profit	5	**13,455**	2,163	**18,462**	641
Finance costs		**(952)**	(1,046)	**(1,586)**	(1,760)
Profit/(Loss) before income tax		**12,503**	1,117	**16,876**	(1,119)
Income tax	6	**(1,986)**	2,440	**(2,686)**	2,440
Profit for the period		**10,517**	3,557	**14,190**	1,321
Other comprehensive income					
Available-for-sale investments		**–**	(5)	**11**	(5)
Total comprehensive income for the year		**10,517**	3,552	**14,201**	1,316
Profit/(loss) attributable to:					
Shareholders of the Company		**12,054**	4,516	**16,205**	3,353
Non-controlling interests		**(1,537)**	(959)	**(2,015)**	(2,032)
		10,517	3,557	**14,190**	1,321
Total comprehensive income/ (loss) attributable to:					
Shareholders of the Company		**12,054**	4,511	**16,212**	3,348
Non-controlling interests		**(1,537)**	(959)	**(2,011)**	(2,032)
		10,517	3,552	**14,201**	1,316
Basic and diluted earnings per share for profit attributable to the shareholders of the Company (RMB)	8	**0.0170**	0.0064	**0.0228**	0.0047

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET

	Note	**Unaudited 30 June 2012** *RMB'000*	Audited 31 December 2011 *RMB'000*
Non-current assets			
Leasehold land payments	9	**34,525**	34,920
Property, plant and equipment	9	**171,098**	111,968
Technical know-how	9	**70**	77
Deferred development costs	9	**6,411**	5,857
Available-for-sale investments		**483**	11
Deferred income tax assets		**2,170**	2,235
		214,757	155,068
Current assets			
Inventories		**20,951**	18,723
Trade receivables	10	**52,619**	57,966
Other receivables, deposits and prepayments		**11,454**	15,461
Amount due from a related party		**9,791**	1,594
Cash and cash equivalents		**115,249**	110,069
		210,064	203,813
Total assets		**424,821**	358,881

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**Unaudited 30 June 2012** *RMB'000*	Audited 31 December 2011 *RMB'000*
Non-current liabilities			
Borrowing	12	**40,000**	40,000
Loans from government authorities	13	**10,000**	10,000
Deferred revenue		**17,938**	19,515
		67,938	69,515
Current liabilities			
Trade payables	11	**28,520**	5,357
Other payables and accruals		**24,566**	28,975
Current income tax liabilities		**2,773**	6,435
Deferred revenue		**22,106**	17,722
Loans from government authorities	13	**1,650**	1,650
Amount due to a shareholder		**1,500**	1,500
Borrowings	12	**60,500**	26,660
		141,615	88,299
Total liabilities		**209,553**	157,814
Capital and reserves attributable to shareholders of the Company			
Share capital		**71,000**	71,000
Reserves		**115,274**	99,062
		186,274	170,062
Non-controlling interests		**28,994**	31,005
Total equity		**215,268**	201,067
Total equity and liabilities		**424,821**	358,881
Net current assets		**68,449**	115,514
Total assets less current liabilities		**283,206**	270,582

UNAUDITED INTERIM CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June 2012 *RMB'000*	Unaudited Six months ended 30 June 2011 *RMB'000*
Operating activities		
Cash generated in operations	**31,132**	25,306
Interest paid	**(1,586)**	(1,760)
Interest received	**1,291**	243
Income tax expense paid	**(6,283)**	–
Net cash generated in operating activities	**24,554**	23,789
Investing activities		
Purchase of property, plant and equipment	**(51,781)**	(3,045)
Paid for deferred development costs	**(1,268)**	–
Purchases of available-for-sale financial assets	**(4,054)**	(1,760)
Proceeds from disposal of property, plant and equipment	**3**	19
Proceeds from disposal of available-for-sale investments	**3,886**	2,060
Net cash used in investing activities	**(53,214)**	(2,726)
Financing activities		
Net cash generated from financing activities	**33,840**	30,000
Net increase in cash and cash equivalents	**5,180**	51,063
Cash and cash equivalents at beginning of the period	**110,069**	90,305
Cash and Cash equivalents at end of the period	**115,249**	141,368

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	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*	Minority interests *RMB'000*	Total *RMB'000*
Balance at 1 January 2011	71,000	211,240	2,829	(145,826)	29,462	168,705
Comprehensive profit/(loss)						
Profit/(loss) for the period	–	–	–	3,353	(2,032)	1,321
Other comprehensive income						
Available-for-sale investment	–	(5)	–	–	–	(5)
Total comprehensive profit/(loss)	–	(5)	–	3,353	(2,032)	1,316
Balance at 30 June 2011	71,000	211,235	2,829	(142,473)	27,430	170,021
Balance at 1 January 2012	**71,000**	**211,233**	**2,829**	**(115,000)**	**31,005**	**201,067**
Comprehensive profit/(loss)						
Profit/(loss) for the period	**-**	**-**	**-**	**16,205**	**(2,015)**	**14,190**
Other comprehensive income						
Available-for-sale investment	**-**	**7**	**-**	**-**	**4**	**11**
Total comprehensive profit/(loss)	**-**	**7**	**-**	**16,205**	**(2,011)**	**14,201**
Balance at 30 June 2012	**71,000**	**211,240**	**2,829**	**(98,795)**	**28,994**	**215,268**

SELECTED NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Background

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

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

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

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

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

As of the date of this report, the Company has direct interests of 100%, 65% and 69.77% in Morgan-Tan, Shanghai Ba Dian Medicine Co., Ltd. ("Ba Dian") and Taizhou pharmaceutical, respectively.

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

2. Accounting policies and basis of preparation

The unaudited interim financial statements of the Group have been prepared in accordance with ISA 34. The accounting policies adopted in preparing the unaudited consolidated financial statements for the six months ended 30 June 2012 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, unless otherwise stated.

The following new standards, amendments to standards and interpretations are mandatory for accounting periods on or after 1 January 2012.

IAS 24 (Revised)	Related party disclosures
IAS 12 (Revised)	Income taxes

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

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

IFRS 1	Presentation of financial statements
IFRS 9	Financial Instruments
IFRS 10	Consolidated financial statements
IFRS 11	Joint arrangements
IFRS 12	Disclosure of interests in other entities
IFRS 13	Fair value measurements
IFRS 19	Employee benefits
IFRS 28	Associates and joint ventures
IFRS 7 and IFRS 9	Mandatory effective date and transition disclosures

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

3. Turnover and segmental information

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

	Unaudited three months ended 30 June 2012			Unaudited three months ended 30 June 2011		
	Research and development activities	**Sales of medical products and the provision of related ancillary services**	**Total**	Research and development activities	Sales of medical products and the provision of related ancillary services	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**–**	**64,126**	**64,126**	–	29,582	29,582
Segment gain/(loss)	**1,727**	**15,793**	**17,520**	(2,681)	1,785	(896)
Unallocated income			**891**			6,005
Unallocated loss			**(5,908)**			(3,992)
Profit before income tax			**12,503**			1,117
Income tax expense			**(1,986)**			2,440
Profit for the period			**10,517**			3,557

	Unaudited six months ended 30 June 2012			Unaudited six months ended 30 June 2011		
	Research and development activities	Sales of medical products and the provision of related ancillary services	Total	Research and development activities	Sales of medical products and the provision of related ancillary services	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	–	82,684	82,684	–	39,044	39,044
Segment gain/(loss)	2,676	22,361	25,037	(4,841)	1,263	(3,578)
Unallocated income			2,781			9,779
Unallocated loss			(10,942)			(7,320)
Loss before income tax			16,876			(1,119)
Income tax			(2,686)			2,440
Profit for the period			14,190			1,321

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

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

4. Other income

Other income for the six months ended 30 June 2012 was mainly due to the realization of income from the strategic cooperation agreement with Shanghai Pharmaceutical Co., Ltd. (a shareholder of the Company) for the cooperation on innovative pharmaceutical research and development amounted to RMB 9,366,000(six months ended 30 June 2011: 8,409,000).

5. Operating gain

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

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2012	2011	**2012**	2011
	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')	**400**	399	**714**	713
Amortisation of technical know-how (included in 'Administrative expenses')	**4**	4	**7**	10
Reversal of impairment of receivables	**(7)**	307	**(7)**	307
Write-down of inventories	**1,109**	979	**1,709**	979
Cost of inventories sold	**4,029**	7,915	**5,434**	10,680
Depreciation of property, plant and equipment	**1,404**	1,266	**2,680**	2,563
Losses on disposal of property, plant and equipment	**2**	16	**11**	16
Operating lease rentals in respect of land and buildings	**189**	56	**301**	113
Research and development costs, excluding employee benefit expenses	**1,934**	3,792	**5,396**	4,619
Employee benefit expenses	**10,817**	9,002	**21,568**	19,913
Gains on disposal of available-for-sale investments	**(93)**	(84)	**(293)**	(193)
Marketing and sales promotion	**38,321**	10,101	**42,872**	12,606

6. Income tax

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Income tax	**(1,986)**	2,440	**(2,686)**	2,440

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. The effective tax rate of the Company is 12.5% in 2012 (2011: 12.5%). The effective tax rates of the subsidiaries are 25% in 2012 (2011: 25%).

7. Dividends

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).

8. Earnings per share

The calculation of the basic earnings per share for the three months ended 30 June 2012 and 30 June 2011 were based on the unaudited profit attributable to shareholders of the Company of approximately RMB12,054,000 (three months ended 30 June 2011: profit attributable to shareholders of the Company of approximately RMB4,516,000) and total shares in issue of 710,000,000 shares (three months ended 30 June 2011: 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 2012 and 30 June 2011 were based on the unaudited profit attributable to shareholders of the Company of approximately RMB16,205,000 six months ended 30 June 2011: profit attributable to shareholders of the Company of approximately RMB3,353,000) and total shares in issue of 710,000,000 shares (six months ended 30 June 2011: 710,000,000 shares) during the six months ended 30 June 2012.

Diluted earnings per share have not been calculated for the three months or six months ended 30 June 2012 and 2011 respectively as there were no dilutive potential ordinary shares during those periods.

9. Capital expenditure

	Unaudited			
	Leasehold land payments *RMB'000*	Property, plant and equipment *RMB'000*	Technical Know-how *RMB'000*	Deferred development costs *RMB'000*
Cost				
At 1 January 2012	**37,356**	**152,802**	**3,822**	**10,482**
Additions	**–**	**61,824**	**–**	**1,268**
Disposals	**–**	**(161)**	**–**	**–**
At 30 June 2012	**37,356**	**214,465**	**3,822**	**11,750**
Accumulated amortisation/ depreciation				
At 1 January 2012	**2,436**	**40,834**	**3,745**	**4,625**
Charge for the period	**395**	**2,680**	**7**	**714**
Disposals	–	**(147)**	–	–
At 30 June 2012	**2,831**	**43,367**	**3,752**	**5,339**
Net book value				
At 30 June 2012	**34,525**	**171,098**	**70**	**6,411**
Cost				
At 1 January 2011	37,356	119,895	3,822	7,286
Additions	–	3,045	–	–
Disposals	–	(201)	–	–
At 30 June 2011	37,356	122,739	3,822	7,286
Accumulated amortisation/ depreciation				
At 1 January 2011	1,646	36,305	3,727	3,155
Charge for the period	395	2,562	10	399
Disposals	–	(176)	–	–
At 30 June 2011	2,041	38,691	3,737	3,554
Net book value				
At 30 June 2011	35,315	84,048	85	3,732

10. Trade receivables

	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
Accounts receivables *(Note(a))*	**52,382**	51,331
Notes receivable *(Note(b))*	**237**	6,635
	52,619	57,966

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

	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
Current to 30 days	**45,735**	35,668
Overdue 31 days to 60 days	**1,955**	7,169
Overdue 61 days to 90 days	**523**	7,117
Overdue over 90 days but less than one year	**4,428**	1,688
Overdue over one year	**590**	544
	53,231	52,186
Provision	**(849)**	(855)
	52,382	51,331

Customers are generally granted credit terms of 90 days.

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

11. Trade payables

Details of the aging analysis are as follows:

	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
Accounts payables *(Note(a))*	**25,742**	5,357
Notes payable *(Note(b))*	**2,778**	–
	28,520	5,357

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

	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
Current to 30 days	**22,116**	3,985
31 days to 60 days	**1,571**	970
61 days to 90 days	**798**	35
Over 90 days but less than one year	**1,068**	214
Over one year	**189**	153
	25,742	5,357

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

12. Borrowings

	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
Non-current		
Long-term bank borrowings, secured	**40,000**	46,660
Less: current portion	**–**	(6,660)
	40,000	40,000
Current		
Short-term bank borrowings, secured	**60,500**	20,000
Current portion of long-term bank borrowings, secured	**–**	6,660
	60,500	26,660

On 30 June 2012, a long-term bank borrowing of RMB 40,000,000 is taken by Taizhou Pharmaceutical which bears an interest rate of 6.90% annually. The loan is due for repayment on 21 March 2014 for RMB 15,000,000 and on 21 March 2015 for RMB 25,000,000. The borrowings were secured by the leasehold land of Taizhou Pharmaceutical.

Among the short-term bank borrowings of RMB 60,500,000 as of 30 June 2012, borrowing of RMB 20,000,000 is due for repayment on 16 October 2012 and its interest rate is 6.56% annually. The borrowing is guaranteed by a third party company. Another borrowing of RMB 20,000,000 is due for repayment on 5 December 2012 which bears an interest rate of 6.888%. The borrowing is secured by the leasehold land of the Company. The borrowing of RMB 20,000,000 is due for repayment on 22 May 2013. The loan is unsecured and the interest rate is 7.22% annually. The subsidiary of the Group, Morgan-Tan took a bank loan of RMB 500,000 which is due for repayment on 23 November 2012 and the interest rate is 6.71% annually.

13. Loans from government authorities

The loans from government authorities are repayable as follows:

	Unaudited 30 June 2012	Audited 31 December 2011
	RMB'000	*RMB'000*
Current	**1,650**	1,650
Non-current	**10,000**	10,000
	11,650	11,650

14. Related party transactions

(i) Transactions

	Unaudited six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Shanghai Pharmaceutical Distribution Co., Ltd.		
Sales of medical products	**5,200**	3,348
Shanghai Pharmaceutical holding Co., Ltd.		
the Cooperation Agreement	**9,366**	8,409

(ii) Balances

	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
Amount due from the related party		
Shanghai Pharmaceutical Distribution Co., Ltd.	**2,465**	1,594
Shanghai Pharmaceutical holding Co., Ltd.	**7,326**	–
	9,791	1,594
Deferred Revenue		
Shanghai Pharmaceutical holding Co., Ltd.	**9,605**	11,645

By Order of the Board
Wang HaiBo
Chairman

As at the date thereof, the Board comprises:

Mr. Wang Hai Bo *(Executive Director)*
Mr. Su Yong *(Executive Director)*
Mr. Zhao Da Jun *(Executive Director)*
Ms. Fang Jing *(Non-executive Director)*
Mr. Hao Hong Quan *(Non-executive Director)*
Mr. Zhu Ke Qin *(Non-executive Director)*
Ms. Ke Ying *(Non-executive Director)*
Mr. Shen Bo *(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

8 August 2012