



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)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

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This announcement, for which 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 GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

AUDITED RESULTS

The board of directors (the “Board”) of 上海復旦張江生物醫藥股份有限公司 (Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.) (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiary (the “Group”) for the year ended 31 December 2002 as follows:-

		Year ended 31 December	
	Notes	2002	2001
		(Rmb'000)	(Rmb'000)
Revenues			
Turnover		22,518	27,909
Other revenues		718	74
Total revenues	3	23,236	27,983
Costs and expenses			
Cost of sales		(9,828)	(4,869)
Research and development costs		(10,095)	(9,062)
Distribution costs		(1,679)	(1,262)
Administrative expenses		(6,916)	(5,718)
Other operating expenses		(822)	(1,435)
Total costs and expenses		(29,340)	(22,346)
Other income		6,808	8,285
Operating profit	4	704	13,922
Finance costs		—	—
Share of results of associate before taxation		—	—
Profit before taxation		704	13,922
Taxation	5	(255)	(2,166)
Profit after taxation		449	11,756
Minority interests		358	70
Profit attributable to shareholders		807	11,826
Dividends	6	—	7,950
Earnings per share (RMB)	7	0.0013	0.0223

1. BACKGROUND INFORMATION

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the “Company”) was established in the People’s Republic of China (“PRC”) on 11 November 1996 as a limited liability company with an initial registered capital of Rmb5,295,000.

Pursuant to a series of capital injections on 10 November 1997, 11 May 2000, and 12 September 2000 from the existing or the then existing shareholders of the Company and the capitalisation of reserves of the Company on 11 December 1997 and 20 October 2000, the registered capital of the Company was increased from Rmb5,295,000 to Rmb53,000,000.

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

On 20 January 2002, all of the shares of the Company, being 53,000,000 ordinary shares with a par value of Rmb1.00 each, were subdivided into 530,000,000 ordinary shares with a par value of Rmb0.10 each.

On 13 August 2002, the Company commenced the trading of the newly issued 198,000,000 ordinary 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 at the date of this report, the Company has a direct interest of 62.5% in a subsidiary, Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd.

The Company and its subsidiary (the “Group”) are principally engaged in research, development and selling of self-developed bio-pharmaceutical know-how, carrying out contracted research for customers, manufacturing and selling of diagnostic reagent and the provision of related ancillary services in PRC.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements of the Group and financial statements of the Company, which conform with the International Financial Reporting Standards (“IFRS”), including International Accounting Standards and Interpretations issued by the International Accounting Standard Board (“IASB”), are set out below. The consolidated results and consolidated net assets of the Group and the net assets of the Company 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 subsidiary. A subsidiary is an entity in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

3 REVENUES AND 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 reagent and the provision of related ancillary services in PRC. Revenues recognized during the year are as follows:

	2002	2001
Turnover		
Technology transfer revenue	14,560	22,000
Sales of diagnostic reagent and the provision of related ancillary services	7,958	5,909
	<u>22,518</u>	<u>27,909</u>
Other revenue		
Interest income	718	47
Dividend income	—	27
	<u>718</u>	<u>74</u>
	<u>23,236</u>	<u>27,983</u>

On 25 March 2002, the Company signed a sales contract with Shandong Dong-E E-jiao Co., Ltd. for a total consideration of Rmb15,000,000. Revenue was recognised when the Company completed respective milestones as specified in the contract and the economic benefits associated with the completion have flown to the Company. Pursuant to the sales contract, the Company is entitled to receive royalty payments from Shandong Dong-E E-jiao Co., Ltd equal to a percentage ranging from 2% to 5% of the future gross annual sales over the new drug protection period stipulated by the State Drug Administration of PRC, or a period of five years if such protection period is cancelled.

On 5 December 2002, the Company entered into an agreement with Lead Discovery Limited Company, an associate of the Company to transfer its PPAR γ activator at a price of Rmb6,000,000. The transfer was completed by 31 December 2002. According to Standing Interpretations Committee (SIC-3), Elimination of Unrealised Profits and Losses on Transactions with Associates issued by the IASB, the unrealised profit from the transfer has been eliminated from revenue to the extent of the Group's interest in Lead Discovery.

4 OPERATING PROFIT

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

	2002	2001
Amortisation of leasehold land payment	21	33
Amortisation of deferred development cost	556	556
Amortisation of technical know-how	323	215
Auditors' remuneration	736	30
Provision for bad debts	827	318
Cost of inventories sold	5,587	4,065
Depreciation of fixed assets	2,172	1,096
Less: amount capitalized in deferred development costs	(491)	(70)
	1,681	1,026
Loss on disposal of fixed assets	315	199
Operating lease rentals in respect of land and buildings	202	395
Research and development expenditure (note (a))	10,095	9,062
Unrealised (profit)/loss on available-for-sale investments	(98)	1,180
Realised loss on disposal of available-for-sale investments	616	—
Written off and provision for inventories	—	7
	<u> </u>	<u> </u>

Note (a): Research and development expenditure mainly represent the salary costs of technical staff involved and the consumables used in the research and development activities which did not satisfy the criteria for capitalization as an asset.

5 TAXATION

	2002	2001
Current taxation	438	2,368
Deferred tax credit	(183)	(202)
	<u> </u>	<u> </u>
	255	2,166
	<u> </u>	<u> </u>

The Company is subject to the Income Tax Law of PRC and the normal income tax rate applicable is 33%. As the Company is recognized as a New and High Technology Enterprise and is operating and registered in the State level New and High Technology Development Zone, it is entitled to a reduced Income Tax rate of 15%. Accordingly, the Company is subject to Income Tax at a rate of 15%.

The subsidiary is subject to the Income Tax Law of PRC and the income tax rate applicable is 33%. No provision for income tax has been made for the subsidiary as it has no taxable income for the year.

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

	2002	2001
Profit before taxation	704	13,922
Tax calculated at a tax rate of 15%	106	2,088
Effect of different tax rate in the subsidiary	89	28
Income not subject to tax	—	(4)
Expenses not deductible for tax purpose	60	54
Tax charge	255	2,166

6 DIVIDENDS

At the meeting on 21 March 2003, the Board of Directors do not propose the declaration of dividends in respect of the year ended 31 December 2002.

At the Annual General Meeting dated 23 June 2002, it was resolved to distribute a dividend in respect of the year ended 31 December 2001 amounting to a total of Rmb7,950,000. Such dividend was paid on 29 September 2002.

7 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, taking into account of the subdivision of the Company's shares from 53,000,000 ordinary shares to 530,000,000 ordinary shares on 20 January 2002.

	2002	2001
Profit attributable to shareholders	807	11,826
Weighted average number of ordinary shares in issue (thousands)	599,534	530,000
Basic earnings per share	0.0013	0.0223

Diluted earnings per share has not been calculated for the year ended 31 December 2002 and 31 December 2001 as there were no dilutive potential ordinary share during the years then ended.

8 RESERVES

	Capital accumulation reserve	Statutory common reserve fund	Statutory common welfare fund	Retained earnings	Total
At 1 January 2001	5	531	531	1,138	2,205
Profit for the year	—	—	—	11,826	11,826
Appropriation to statutory reserves	—	1,144	572	(1,716)	—
At 31 December 2001	5	1,675	1,103	11,248	14,031
Issuance of ordinary shares	115,009	—	—	—	115,009
Dividend paid	—	—	—	(7,950)	(7,950)
Profit for the year	—	—	—	807	807
Appropriation to statutory reserves	—	34	17	(51)	—
At 31 December 2002	115,014	1,709	1,120	4,054	121,897

- (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.
- (b) Pursuant to PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined under 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 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 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 dividend based on the lower of retained earnings as reported in accordance with PRC accounting regulations and that reported in accordance with IFRS after deduction of current year's appropriations to the reserves. According to the statutory financial statements prepared in accordance with PRC accounting regulations and the financial statements prepared in accordance with IFRS, the distributable reserves as at 31 December 2002 amounted to approximately Rmb3,232,000 and Rmb4,054,000 respectively. Hence, the distributable reserves as at 31 December 2002 was approximately Rmb3,232,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The following discussion and analysis of the Group's financial condition and results of operation 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 2002 amounted to Rmb22.5 million, compared to Rmb27.9 million for the previous year.

Of the total turnover, Rmb14.6 million or 65% was derived from technology transfer revenue, and the rest Rmb7.9 million or 35% was derived from the sales of diagnostic reagent and the provision of related ancillary services.

TECHNOLOGY TRANSFER REVENUE

The technology transfer revenue decreased Rmb7.4 million or 34% compared with Rmb22.0 million recognised in 2001.

On 25 March 2002, the Company signed a sales contract with Shangdong Dong-E E-Jiao Co., Ltd. for a total consideration of Rmb15.0 million. Rmb10.0 million was recognized as revenue in the year after the Company completed respective milestones as specified in the contract and the economic benefits associated with the completion have flown to the Company. Pursuant to the sales contract, the Company is entitled to receive royalty payments from Shandong Dong-E E-jiao Co., Ltd. equal to a percentage ranging from 2% to 5% of the future gross annual sales over the new drug protection period stipulated by the State Drug Administration of PRC, or a period of five years if such protection period is cancelled.

On 21 November 2002, Lead Discovery Limited Company ("Lead Discovery"), an associate of the Company, was established to replace the Joint Laboratory. On 5 December 2002, pursuant to the agreement for the establishment of Lead Discovery, the Company transferred its PPAR γ activator to Lead discovery at a price of Rmb6.0 million. The transaction was completed by the year ended 31 December 2002. The Company has recognized Rmb4.6 million as revenue after elimination of the unrealized profit to the extent of the Group's interest in Lead Discovery.

The decrease in the technology transfer revenue is mainly due to the change in the Group's strategy on the R&D activities. The Group used to sell those projects that are expected to face huge competition upon commercial launch or which are "me-too" drugs during the R&D process in return for a cash flow and funding for other R&D programs. After the successful placing of new shares in August 2002, the Group has more financial resources to be devoted to its research and development activities. The Directors believe that it would be more profitable to the Group to transfer its projects at a later stage than seeking upfront return. In addition, the long-term strategy of the Group is to focus on the R&D and commercialisation of its self-developed category I bio-pharmaceutical

drugs. Therefore, although technology transfer would still remain one of the Group's alternatives to realise short-term profits and maintain cash flow position, the Group will focus none on project commercialisation to seek long term business success.

SALES OF DIAGNOSTIC REAGENT AND THE PROVISION OF RELATED ANCILLARY SERVICES

Despite tough market competition, the sales revenue of diagnostic reagent and the provision of related ancillary services for the year ended 31 December 2002 has increased by 34% to Rmb7.9 million from Rmb5.9 million for the previous year. The segment profit shows a ninefold increase to Rmb0.7 million. The improvement is principally due to enhanced marketing efforts of the Group's sales agents.

COSTS AND EXPENSES

The total costs and expenses of the Group for the year ended 31 December 2002 were Rmb29.3 million, compared with Rmb22.3 million for the previous year.

The increase in total costs and expenses is mainly attributed to the increase of cost of sales to Rmb9.8 million, compared with Rmb4.9 million for the previous year. The costs of sales include the production costs of diagnostic reagent and the costs of technology transfer subsequent to entering into sales contract which are variable according to the different projects under transfer.

In addition, as more resources have been devoted to research and development activities than the previous year, the R&D costs for the year ended 31 December 2002 amounted to Rmb10.1 million, representing 11% or Rmb1.1 million increase over the previous year's figure.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

A profit attributable to shareholders of Rmb0.7 million was recorded for the year ended 31 December 2002, compared with Rmb11.8 million for the previous year. The decrease is mainly due to the decrease of technology transfer revenue and the increase of relevant costs as mentioned above. However, the Directors are of the opinion that with the commercialization of the Group's self-developed category I bio-pharmaceutical drugs and other R&D projects in progress, the revenue and the operating result will grow substantially.

IMPAIRMENT OF ASSETS

No impairment of assets is noted as at 31 December 2002 after the assessment of the fair value of the Group's fixed assets, technical know-how, deferred development costs and other non-current assets.

SIGNIFICANT INVESTMENTS

As at 31 December 2002, the Group invested Rmb5.3 million in listed shares and funds, compared with Rmb5.9 million as at 31 December 2001. Such decrease was principally due to the redemption of shares and funds investment by the Group.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Company entered into an agreement on 21 November 2002 to invest Rmb7.2 million in exchange of 24% share of Lead Discovery. The Company had injected Rmb6.0 million into Lead Discovery as at 31 December 2002. The rest Rmb1.2 million is planned to be injected in early 2003.

Save as above, the Group did not have any material acquisitions or disposals of subsidiaries and associated companies during the year.

CONTINGENT LIABILITIES

As at 31 December 2002, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

As at 31 December 2002, the Group did not have any charge on its assets.

BANKING FACILITIES

As at 31 December 2002, the Group were no banking facilities.

FUTURE PLANS FOR MATERIALS INVESTMENTS OR CAPITAL ASSETS

On 13 March 2002, the Group entered into an agreement for the establishment of Shanghai Ba Dian Medicine Co., Ltd., on the research and development of bio-pharmaceutical products. The registered capital of the new subsidiary is about Rmb15.0 million. The Group will contribute Rmb9.75 million for a 65% interest in the subsidiary.

Save as above and disclosed in the Prospectus dated 31 July 2002, there are no future plans for material investments or capital assets.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations and investing activities with internally generated financial resources, proceeds from the placing of shares in August 2002 by the Company and loans from municipal government authorities. As at 31 December 2002, the Group had outstanding loans from municipal government authorities of Rmb2.1 million which are unsecured, interest free and repayable within one year.

As at 31 December 2002, the Group had a net cash and cash equivalent position of approximately Rmb138.4 million. Following the listing of the shares on the GEM of the Stock Exchange on 13 August 2002, the liquidity position of the Group has been strengthened with the proceeds from the placing of shares, which amounts to approximately HK\$127.6 million after deducting all relevant expenses. The Group is applying these proceeds in the manner as disclosed in the Supplementary Prospectus of the Company.

The Group's gearing ratio at 31 December 2002 was 0.11(31 December 2001: 0.32) which is calculated based on the Group's total liabilities of Rmb22,140,000(31 December 2001: Rmb21,591,000) and shareholders' funds of Rmb192,897,000(31 December 2001: Rmb67,031,000).

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.

FOREIGN EXCHANGE EXPOSURE

The Group operates mainly in domestic market. Cash proceeds from the placing of new shares in August 2002 were in HK dollar and majority of the cash has not been converted to Rmb. The official exchange rate for HK dollar and Rmb has generally been stable, however, the results of operations and the financial position of the Group may be affected by the changes in the exchange rates.

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

EMPLOYEES

As at 31 December 2002, the Group had a total of 106 employees, as compared to 96 employees as at 31 December 2001. Staff costs including directors' remuneration for the year ended 31 December 2002 and 2001 were Rmb8.4 million and Rmb6.6 million, respectively. The Group's employment and remuneration policies remained unchanged with those described in the Prospectus of the Company. The salaries and benefits of employees of the Group are kept at a competitive level and employees are rewarded on a performance related basis with general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory compulsory welfare plans, are also provided to employees. The turnover rate of the employees is very low.

BUSINESS REVIEW

It is the Group's objective that "the harder we work, the healthier human beings will be". The Group is committed to becoming a pioneer in the bio-pharmaceutical industry focusing on R&D of genetic technology and the commercialization of patent drugs.

On 25 March 2002, the Group entered into a "Technology transfer contract on recombinant tissue plasminogen activator" with Shandong Dong-E E-jiao Co., Ltd., an independent third party, and transferred the recombinant tissue plasminogen activator (r-tPA), a drug for cure of acute heart infarction, for a total consideration of RMB15 million. On 31 December 2002, the Group completed all the steps as agreed under the contract, subsequent to which, the Group is entitled to a profit sharing of 2%-5% on the total annual sales of the product from Shandong Dong-E E-jiao Co., Ltd. for a term of eight years (five year, if the new drug protection period is cancelled).

In September 2002, the SDA issued the "Notice of the SDA in respect of the administration of the classification of in-vitro diagnostic reagents", which, as a result of the change in regulations, HLA genetic chips of the Group have to obtain the SDA's permit prior to the sale to medical institutions. Such a requirement has affected the production, and sale and permit of the HLA genotyping of the Group, and has accordingly led to the postponement to its development in overseas markets. The Group will make an application to the SDA in accordance with the Notice and comply with the related requirements.

To further strengthen the management and to facilitate the progress of the Group's internal designated R&D projects as well as to enhance the proactiveness of its R&D staff, the Group has implemented the "Management system on designated research and development projects" since September 2002. The aims of the new management system are to implement a reviewing system by the R&D committee members to make the project supervisor accountable for the implementation of R&D. Each project supervisor is specially tasked to oversee the system throughout the course of a R&D project and has the discretion to grant such reward or impose such penalty as he determines. It is the Group's belief that by implementating such a system, the Group will grow more steadily with better project management, which will generate more profit for the Group.

In addition, after years of research, the effort of the staff has ultimately achieved results. On 28 October, 2002, the Group's research on lymphotoxin, a category I drug, entered the phase of clinical tests, being the first in the world to have obtained clinical permit.

For the Group's long-term development, the Group has formed a joint venture with Shanghai Institute, Shanghai Pharmaceutical, Mr. Jiang Hualiang and Shanghai Technology Investment by establishing a company with limited liability under the name of "Shanghai Xiandao Pharmaceutical Co., Ltd." ("Xiandao Pharmaceutical") to replace the former Joint Laboratory. At the end of 2002, the company received considerable support and encouragement from Shanghai Science and Technology Committee, with a non-repayable project subsidy fund amounting to RMB10,000,000.

I believe that Xiandao Pharmaceutical can capitalize on the expertise of the Shanghai Institute on the research of micro-molecular compounds, the strengths of Shanghai Pharmaceuticals on marketing and sales, the expertise of Mr. Jiang Hualiang on the research of bio-pharmaceuticals and the funding support from Shanghai Technology Investment, as well as the Group's strengths in genetic engineering and highly effective screening capability. I believe that with this strategic move and by combining the strengths of the parties, the Group will achieve a higher return.

The Group has been working on innovative drugs as its core technology, and it places great emphasis on the legal protection of its proprietary technology and patent technology. In addition to 1 new registered practical patent which it owns and 13 invention patent applications which are pending approval, the Group has applied to the State Intellectual Property Bureau for registration of another new invention patent (Patent name: Chinese medicine extraction with active α -glucosidase inhibitor, its preparation and applications). Also, the Group's invention patents on various genomes/genetic chips, which had passed the patent review at the end of 2002, was formally awarded a patent certificate on 19 February 2003.

Moreover, in order to further cope with the marketing of the Group's diagnostic reagent products, and to ensure the competitiveness of the Group's superior brand-name in the market, the Group has made applications to the State Intellectual Property Bureau for 58 appearance design patents on the packaging boxes of the relevant diagnostic reagents in 2002. The Group believes that not only can these patents effectively snuff out copyright infringement, but can also enhance the market image of the Group.

Since its establishment, with its strong capability of developing new drugs independently and its direction of development going along with the State’s policies on industries, the Group has won grants and subsidies from various reputable funds and from medical and pharmaceutical institutions of provincial and State levels in the PRC.

During the year, material progress has been made on the “863” key topics put forward by the Group to the Ministry of Science and Technology. On 18 November 2002, the “Clinical research on new generation lymphotoxin” put forward by the Group and the new K+ Channel inhibitor (belonging to Xiandao Pharmaceutical) jointly put forward by the Company and Shanghai Institute have been determined as “National Major and Special-purpose Technological Projects for the Tenth Five-year Plan” by the Ministry of Science and Technology, and non-repayable State subsidies amounting to RMB2,000,000 and RMB2,400,000 respectively have been granted.

Further, the Group has obtained subsidy from the Science and Technology Bureau of Shanghai Pudong new district in the form of non-repayable subsidies amounting to RMB400,000 in July 2002. In November 2002, a non-repayable subsidy amounting to RMB200,000 was granted by the Science and Technology Bureau of Shanghai Pudong new district for the research on mycophenolic acid (霉酚酸酯), an immunity inhibitor, and has been recommended by the Shanghai Science and Technology Committee to apply for special item fund for National Major Technology Project from the Ministry of Science and Technology. The management is confident that the application will receive considerable support and subsidy from the State will be granted.

The Group has made smooth progress on various R&D projects. However, delays have been experienced in some special projects due to adjustments made to the R&D focus of those projects and changes made by the SDA on the procedures for clinical applications. On balance, most of the R&D projects are proceeding as scheduled. The original plans and the actual progress are as follows :

Project name and description	Anticipated progress of R&D in 2002 as set out in the prospectus	Actual progress as at 31 December 2002
Recombinant human lymphotoxin-α derivatives (rhLT) for the treatment of lung cancer	Stage I clinical tests completed	Approval for human body clinical tests has been obtained, and commenced Stage I clinical tests on 28 October. The Stage I clinical tests are anticipated to be completed by the end of 2003
Recombinant human parathyroid hormone derivatives (rhPTH) for the treatment of osteoporosis	Pre-clinical research completed	The Company has completed all the pre-clinical steps, and will apply to the SDA for clinical tests in 2003

Project name and description	Anticipated progress of R&D in 2002 as set out in the prospectus	Actual progress as at 31 December 2002
Recombinant tissue type plasminogen activator (r-tPA) for the treatment of acute heart infarction	The SDA has approved the clinical tests, and an agreement to transfer the technology to an independent third party was made in March 2002	The Company has completed all the steps as agreed under the project transfer contract, and Shandong Dong-E E-jiao Co., Ltd., an independent third party, has paid [the balance of] the project transfer money of RMB10,000,000 to the Company as agreed
Hemporfin, a photodynamic therapy drug	Pre-clinical research completed, and application for clinical tests completed	Part of the pre-clinical steps has not been completed. It is anticipated that application for clinical tests will be made to the SDA in the second half of 2003
Deuteroporphyrin, a photodynamic therapy drug	Pre-clinical research commenced	Most of the pre-clinical steps have been completed. It is anticipated that application for clinical tests will be made to the SDA in the second half of 2003
Human leukocyte antigen (HLA) genotyping chips	Clinical tests completed Production equipment purchased	Application has been made according to the new requirements. Part of the equipment added
Lymphotoxin mutants	Screening process completed	Completed
New type of erythropoietin	Initial research completed	Research suspended due to other considerations of the Company
α -1,4 glucosidase inhibitor	Initial research completed	Completed

USE OF PROCEEDS

During the period from September 2002 to 31 December 2002, the Group has applied the net proceeds as follows :

Item	Anticipated use of the net proceeds as at 31 December 2002 as set out in the prospectus (RMB'000)	Actual amount used as at 31 December 2002 (RMB'000)
Research and commercialization of genetic engineering drugs		
Recombinant human pyrophosphatase- α derivatives (rhLT)	4,000	1,760
Recombinant human parathyroid hormone derivatives (rhPTH)	3,000	90
Purchase of production and quality control facilities	0	0
Research and commercialization of photodynamic therapy drugs		
Hemporfin	2,000	323
Deuteroporphyrin	1,000	162
Research and commercialization of medical diagnosis products		
Genetic chips	2,000	618
Purchase of production facilities	14,500	1,577
Enhancement of the Company's capabilities in R&D and new drug screening	4,000	3,762
Total	<u>30,500</u>	<u>8,292</u>

FUTURE PROSPECTS

With China's accession to the WTO, it is anticipated that market competition in the pharmaceutical industry of the PRC will be more intense. However, with China's huge population and people's awareness of medical and healthcare products, the pharmaceutical industry is still very promising. The Group will continue to develop or manufacture innovative drugs independently and to take more stringent measures to protect its intellectual property rights whereby applying for patent protection of its R&D technologies and products. Therefore, I remain fully confident and optimistic about the development prospects of the Group.

In order to maintain its competitiveness in the market, the Group will make more efforts to expand its established market share in order to generate higher return to the shareholders. In the future, the Group will focus its resources in research and development, project transfers, commercialization, clinical tests and strategic alliances.

- Research and development

R&D platform for genetic engineering drugs - is the major research platform of the Group. As the R&D on protein engineering and antibody engineering drugs are the general direction of research in the area of bio-pharmaceutical, focus of the platform has now strategically moved to the R&D of phage high flux screening and high expression technology of animal cells, which are requisite for the protein building engineering and antibody engineering, with significant progress. As for the platform construction for other R&D purposes and for special R&D items, they are proceeding as originally planned.

In addition, the Group is looking forward to the completion of all the pre-clinical steps in respect of PTH for the treatment of osteoporosis, the photodynamic therapy drug Hemporfin for the treatment of port wine stain, a photodynamic therapy drug 五氨基酮戊酸 for the treatment of rigid condyloma, genetic engineering drug soluble TNF receptor fusion protein for the treatment of arthritis, a Chinese medicine, the light sugar (淡糖) for the treatment of diabetes and super low molecule heparin calcium for the prevention of blood clots within this year. It is anticipated that applications for clinical tests of 4-5 of these drugs will be made to the SDA, and clinical approvals will be obtained from the SDA one after another in the year to come.

Other than the active efforts with projects under research, the Group is also commencing other new projects. An example is the new generation lymphotoxin project, which is targeting mainly at tumours, will commence large-scale screening process and limited testing on animals on partial target points in 2003, and it is anticipated that application for an international patent will be completed by the end of 2003. Human antibody Anti-Herz oncogene humanized project, which is mainly targeting at breast cancer, is planned to have its high expression cell line developed by the first half of 2003, and small sample quantities can be prepared by the end of October. Testing on animals is expected to commence by the end of the year.

- Project transfer

As the Group will apply to the SDA for clinical tests for a number of its projects in this year, the overall value of such projects will increase upon obtaining the approvals which will significantly enhance the chances for their successful transfer. Therefore, it is the Group's intention that in addition to actively participating in trade fairs for the exchange of technological property rights in China, the Group will also send designated staff to actively liaise with various drug producers in order to identify suitable targets of transfer for the R&D projects of the Group. The management believes that growth in income derived from technological transfer in 2003 over 2002 is foreseeable.

- Commercialization

In order to strengthen and develop the Group's business more steadily in the long term and in addition to its continued and active efforts in R&D projects, the Group also plans to focus on achieving the commercialization of the antenatal screening system for the Down's Syndrome, thereby transforming the commercialization of the Group's business step by step. Down's Syndrome, also known as mongolism, is the most commonly seen non-hereditary congenital defect with morbidity of 1/750. In the PRC, there are about 30,000 out of 20,000,000 new born babies suffering from Down's Syndrome every year, bringing tremendous economic and social burden to the State. Therefore, screening and diagnosis of Down's Syndrome has become an important target of the State for the enhancement of population quality and to achieve "Birth defects interference engineering". The Down's Syndrome screening system developed by the Group includes quantitative ELISA kit and risk index calculation software and has been developed basing on substantial clinical information of the public in the PRC. The product has passed the technical assessment by the SDA, and it is anticipated that the production permit can be obtained, and the diagnostic reagent can be marketed by the second half of 2003. The project is probably the first product to be approved for production and clinical application since the commencement of the "Birth defects interference engineering" three years ago, and has a large market potential. The Group plans to establish a solid collaboration relationship with the related entities of the Scientific Research Institute of the National Birth Planning Committee, and to actively participate in the regional promotion of the "Birth defects interference engineering". It is anticipated that this special item will become an important source of profit for the Company.

In order to strengthen the competitiveness of the Group's product in the medical diagnosis sector, the Group has established a collaboration relationship with Luminex, a company listed on the Nasdaq, for the exclusive promotion in China of the use of Luminex's liquid chip technology (xMap) on the development of instruments for use in scientific researches and diagnosis. The Group is further authorised by Luminex to develop the second generation screening reagent for detection of Down's Syndrome at early stages of pregnancy with the high flux and quantitative, rapid technical characteristics of its xMAP technology, and to develop diagnostic reagent on the identification of 15 tumour targets. Unlike other technology transfer projects of the Group, the two diagnostic reagent technologies are planned to be commercialized within the Group upon their successful development.

- Clinical tests

On the R&D platforms of the Group, a number of projects which are undergoing research and development will enter into the clinical stage one after another in the future, and a large amount of assessment on the tests of pharmacodynamics and toxicology, tests of pharmacology and clinical researches will commence. Therefore, the Group will continue to recruit professional expertise and create an accountability mechanism for a designated supervisor on clinical researches, with a view to carrying them out more professionally. The management is confident that the bottleneck arising from the clinical researches will be overcome.

- Strategic alliance

Apart from conducting R&D on new drugs by its in-house professional R&D team, the Group will continue to maintain the strategic alliances with various reputable universities, institutes and hospitals, thereby combining the expertise, R&D equipment and resources of the various parties to help the Group in strengthening its independent R&D capability and to enhance its competitiveness.

During the year 2003, the Group prepares to make cash contributions of RMB9,750,000 for the establishment of a joint venture limited company with Shanghai Life Science Research Institute of the Academy of Science (中科院上海生命科學研究院), Shanghai Organic Chemistry Research Institute of the Academy of Science (中科院上海有機化學研究所), academician of Pei Gang (裴鋼院士) researchers of Madawei (馬大為研究員), to engage mainly in the development of new drugs and to be named "Shanghai Badian Pharmaceutical Co., Ltd. (上海靶點藥物有限公司)". The company will rely on the Pei Gang Laboratory of Shanghai Life Science Research Institute of the Chinese Academy of Sciences (中科院上海生命科學研究院裴鋼實驗室) and the Madawei Laboratory of Shanghai Organic Chemistry Research Institute of the Chinese Academy of Sciences (中科院上海有機化學研究所馬大為實驗室), which are of first rate in the PRC, in the joint research and development in pharmacology which includes molecular pharmacology, design and synthesis of small molecular drugs, and combined and overall pharmacology.

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

As at 31 December 2002, the interests 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, as required to be recorded in the register maintained by the Company under Section 29 of the SDI Ordinance were as follows:

Name of directors	Number of ordinary shares of RMB0.1 each		Total
	Personal/ other interests	Corporate/ family interests	
Wang Hai Bo	51,886,430	—	51,886,430
Su Yong	18,312,860	—	18,312,860
Zhao Da Jun	15,260,710	—	15,260,710
Fang Jing	5,654,600	—	5,654,600

Save as mentioned above, none of the Directors, the Chief Executive and the Supervisors and their respective associates had any interests in the shares or debentures of the Company and its associated corporations, if any, as recorded in the register under Section 29 of the SDI Ordinance upon the listing of the Company.

SUBSTANTIAL SHAREHOLDERS

To the best knowledge of the Directors, as at 31st December 2002, shareholders having an interest of 10% or more in the respective class of share capital of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance are listed as follows:

Name of shareholders	Class of shares	Number of shares held	Percentage to the respective class of share capital	Percentage to the total issued share capital
Shanghai Pharmaceutical Co., Ltd. "Shanghai Pharmaceutical"	Domestic Shares	139,578,560	27.26%	19.66%
China General Technology (Group) Holding, Ltd. "China General"	Domestic Shares	130,977,816	25.58%	18.45%
Shanghai Zhangjiang Hi-Tech Park Development Corp. Ltd. "Zhangjiang Hi-Teach Park"	Domestic Shares	105,915,096	20.69%	14.92%
Wang Hai Bo	Domestic Shares	51,886,430	10.13%	7.31%
S.I. Pharmaceutical Holdings Ltd. <i>(note)</i>	H Shares	70,856,000	35.79%	9.98%

Note: Including the 5,000,000 H Shares held by SIIC Medical Science and Technology Group Limited, a subsidiary of S.I. Pharmaceutical Holdings Ltd.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Group was a party and in which a Director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the financial year 2002 or at any time during that financial year.

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

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%
Jiangxi Nanhua Pharmaceutical Co., Ltd. (江西南華醫藥有限公司)	Drug retailing	50%
Shanghai Pharmaceutical (Sudan) Co., Ltd. (上海製藥(蘇丹)有限公司)	Drug manufacturing	55%
Shanghai Hefeng Pharmaceutical Co., Ltd. (上海禾豐製藥有限公司)	Drug manufacturing	50%
Shanghai No. 9 Pharmaceutical (上海第九製藥廠)	Drug manufacturing	100%
Shanghai Changzheng Fuming Pharmaceutical Co., Ltd. (上海長征富民藥業有限公司)	Drug manufacturing	51%
Shanghai Changzheng Jinshan Pharmaceutical Co., Ltd. (上海長征富民金山製藥有限公司)	Drug manufacturing	65%
Shanghai Fuda Pharmaceutical Co., Ltd. (上海福達製藥業有限公司)	Drug manufacturing	70%
Anhui Huashi Pharmaceutical Co., Ltd. (安徽華氏醫藥有限公司)	Drug manufacturing	67%
Shanghai Huashi Pharmaceutical Co., Ltd. (上海華氏製藥有限公司) (Note 1)	Drug manufacturing	100%
Shanghai Huashi Pharmaceutical Hi-Tech Industrial Development Co., Ltd. (上海華氏醫藥高科技實業發展有限公司)	Drug introduction and R&D of chemical and initiative drugs	100%
Shanghai Jiufu Pharmaceutical Co., Ltd. (上海九福藥業有限公司)	Drug manufacturing	50%
Maanshan City Huashi Pharmaceutical Co., Ltd. (馬鞍山市華氏醫藥有限公司)	Drug trading	50%
Anhui Province Huajinshi Wuhu Pharmaceutical Co., Ltd. (安徽省華金氏蕪湖醫藥有限公司)	Drug trading	80%

CHINA GENERAL

Investee company	Nature of business	Shareholding interests
Hainan Tongmeng Pharmaceutical Co., Ltd. (海南同盟藥業有限公司)	Drug manufacturing	49%
Hainan Sanyang Pharmaceutical Co., Ltd. (海南三洋藥業有限公司) (Note 2)	Drug manufacturing	65%
China Pharmaceutical Health Accessories Import and Export Corporation (中國醫藥保健品進出口總公司)	Drug trading	100%
Yunnan Tongyong Shanmei Pharmecautical Co., Ltd. (雲南通用善美製藥有限公司)	Drug manufacturing	51%

ZJ HI-TECH PARK CO.

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%
Shanghai National Bio-pharmaceutical Base Pharmaceutical Selling Co., Ltd. (上海國家生物醫藥基地醫藥銷售有限公司)	Sales of drugs	75%
Shanghai Zhangjiang Desano Science and Technology Co., Ltd. (上海張江迪賽諾科技產業有限公司)	Manufacturing and sales of intermediate products of drugs	51%

Notes:

1. Yu Qing Hua, a non-executive Director and director of Shanghai Pharmaceutical, was nominated and appointed by Shanghai Pharmaceutical as the chairman of the board of Shanghai Huashi Pharmaceutical Co., Ltd..
2. Zhang Li Qiang, a non-executive Director and a deputy general manager of China General Industry Company, was nominated and appointed by China General to be the chairman of the board of Hainan Sanyang Pharmaceutical Co., Ltd..
3. Fang Jin, a non-executive Director, was nominated and appointed by Shanghai Zhangjiang Hi-Tech Park Development Corp. as the director of the board of Shanghai National Bio-pharmaceutical Base Pharmaceutical Selling Co., Ltd..
4. Save for notes (1), (2) and (3) above, the above Initial Management Shareholders have no board representation in the investee companies listed above.

SPONSORS' INTERESTS

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

As at 31 December 2002, one fellow subsidiary of Guotai Junan held 1,324,000 H Shares of the Company. Save as mentioned above, Guotai Junan, Barits, their directors, employees nor any of their respective associates has any interest in any securities of the Company or any of its associated corporations.

AUDIT COMMITTEE

The Company has established an audit committee on 30 January 2002 with written terms of reference based on the guidelines recommended by the Hong Kong Society of Accountants. The audit committee comprises two independent non-executive directors of the Company, namely Feng Zheng Quan, who is the Chairman of such committee, and Pei Gang. As Pei Gang, the independent non-executive director of the Company, resigned on 13 March 2003, Cheng Lin, an independent non-executive director of the Company, has been appointed as a member of the audit committee.

The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Group and discussed with the directors on the internal controls and financial reporting matters including a review of the 2002 annual report and the condensed accounts for the year ended 31 December 2002.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor its subsidiary purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2002.

PRE-EMPTIVE RIGHTS

There are no provision for the pre-emptive rights under the articles of association of the Company or the laws of the People's Republic of China ('PRC'), being the jurisdiction in which the Company was established, which would obliged the Company to offer new shares on a pro rata basis to existing shareholders.

COMPLIANCE WITH THE GEM LISTING RULES

The Company has complied with rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the H Shares on GEM on 13 August 2002.

By order of the board

上海復旦張江生物醫藥股份有限公司

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.*

Wang Hai Bo

Chairman

Shanghai, the PRC

21 March 2003

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

* *For identification purpose only*