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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:1349)

**CONTINUING CONNECTED TRANSACTIONS -
RENEWAL AGREEMENT OF STRATEGIC COOPERATION AGREEMENT FOR
INNOVATIVE PHARMACEUTICALS RESEARCH AND DEVELOPMENT
WITH SHANGHAI PHARMACEUTICALS**

The Company had entered into the Strategic Cooperation Agreement with Shanghai Pharmaceutical on 23 February 2011 which has been renewed on 19 March 2013 upon its expiration on 31 December 2013. References are made to the announcements of the Company dated 23 February 2011, 19 March 2013, 18 March 2016 and the circulars of the Company dated 8 April 2011, 12 April 2013 and 13 April 2016 in relation to, among other things, the Strategic Cooperation Agreement and transactions thereunder between the Company and Shanghai Pharmaceuticals. As the Strategic Cooperation Agreement has expired on 31 December 2016 and for the continuous cooperation between the Company and Shanghai Pharmaceuticals on the research and development and commercialization of certain pharmaceuticals, the Board announces that on 10 May 2017 the Company and Shanghai Pharmaceuticals entered into the Renewal Agreement, which extends the term of the Strategic Cooperation Agreement for a period of three years with effect from 1 January 2017 to 31 December 2019 and the relevant annual caps have been determined. Save as the above changes, all the existing terms and conditions of the Strategic Cooperation Agreement remain unchanged.

Shanghai Pharmaceuticals is a promoter and substantial Shareholder of the Company and therefore, is a connected person of the Company under the Listing Rules. The transactions under the Strategic Cooperation Agreement (as renewed by the Renewal Agreement) will be carried out on a continuing or recurring basis in the ordinary and usual course of business of

the Company and therefore, constitute continuing connected transactions of the Company under the Listing Rules.

Since the highest applicable percentage ratio for the highest proposed annual cap for each of the three years ending 31 December 2019 for the continuing connected transactions under the Strategic Cooperation Agreement (as renewed by the Renewal Agreement) exceeds 0.1% but is below 5%, such transactions are subject to the reporting and announcement requirements, but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company had entered into the Strategic Cooperation Agreement with Shanghai Pharmaceutical on 23 February 2011 which has been renewed on 19 March 2013 upon its expiration on 31 December 2013. References are made to the announcements of the Company dated 23 February 2011, 19 March 2013, 18 March 2016 and the circulars of the Company dated 8 April 2011, 12 April 2013 and 13 April 2016 in relation to, among other things, the Strategic Cooperation Agreement and transactions thereunder between the Company and Shanghai Pharmaceuticals. As the Strategic Cooperation Agreement has expired on 31 December 2016 and for the continuous cooperation between the Company and Shanghai Pharmaceuticals on the research and development and commercialization of certain pharmaceuticals, the Board announces that on 10 May 2017 the Company and Shanghai Pharmaceuticals entered into the Renewal Agreement, which extends the term of the Strategic Cooperation Agreement for a period of three years with effect from 1 January 2017 to 31 December 2019 and the relevant annual caps have been determined. Save as the above changes, all the existing terms and conditions of the Strategic Cooperation Agreement remain unchanged.

THE STRATEGIC COOPERATION AGREEMENT

On 10 May 2017, the Company entered into the Renewal Agreement of Strategic Cooperation Agreement with Shanghai Pharmaceuticals for the strategic cooperation on innovative pharmaceuticals research and development for the three years until 31 December 2019. Pursuant to the Strategic Cooperation Agreement, both parties will jointly share the risks of, and cooperate on, the research, development and commercialization of the relevant potential pharmaceuticals owned by the Group which are currently at various research stages. Details of the Strategic Cooperation Agreement are set out as follows:

Date: 10 May 2017

Parties: The Company and Shanghai Pharmaceuticals

Validity and Renewal: The Renewal Agreement took effect from 1 January 2017 with the term extended by the Renewal Agreement up to 31 December 2019; and

Upon the expiration of the Strategic Cooperation Agreement, if the research and development of Such Pharmaceuticals has not yet completed, both parties could renew pursuant to the principles of the

Strategic Cooperation Agreement, and the term for each renewal shall not exceed three (3) years. If the Company is not willing to renew, the rights of the Company thereunder will be terminated and all rights and interests pertaining to Such Pharmaceuticals shall be vested into Shanghai Pharmaceuticals. If Shanghai Pharmaceuticals is not willing to renew, the rights of Shanghai Pharmaceuticals thereunder will be terminated, and all the rights and interests pertaining to Such Pharmaceuticals shall be vested into the Company.

Pricing Policy:

In respect of the preliminary research and development expenses incurred by the Company on Such Pharmaceuticals before the signing of the Strategic Cooperation Agreement up to 31 December 2010, 80% of such expenses shall be borne by Shanghai Pharmaceuticals in accordance with the agreed progress of the projects.

After the signing of the Strategic Cooperation Agreement, the research and development expenses incurred on Such Pharmaceuticals from 1 January 2017 (inclusive) shall be borne as to 20% by the Company and as to 80% by Shanghai Pharmaceuticals.

The expenses incurred by the research and development of Each Pharmaceutical shall include direct commissioning for research and development fees, raw material fees, testing and processing fees, salaries of staff directly involved in the project, utilization fees of equipment directly relating to the research and development of Such Pharmaceuticals and appropriate management fees.

**Payment
Terms:**

Shanghai Pharmaceuticals shall make prepayments in the amount set out in the annex of the Strategic Cooperation Agreement within the first month from the effective day of the Strategic Cooperation Agreement and the second month of each subsequent calendar year, and any expenses that exceed the budget shall be referred to the management committee for its approval on an item-by-item basis. Settlement shall be made annually on the basis of the actual research and development expenses incurred in the relevant year and in the ratios agreed in the Strategic Cooperation Agreement after rectification by the management committee. Settlement is required to be completed within the first month of the following year, any excess amount will be refunded to, and any shortfall will be made up by, the parties or the balance of the prepayments may be carried forward to the next year.

The amount of payment to be made by Shanghai Pharmaceuticals to the Company in respect of its share of the preliminary research and development expenses for Each Pharmaceutical shall be made by instalments in accordance with the agreed progress of the project, and the timing of such payment shall be determined by the annex of the Strategic Cooperation Agreement.

**Other Key
Terms:**

The Company agreed to share ownership jointly with Shanghai Pharmaceuticals over the patents and the rights to patent application relating to Such Pharmaceuticals within the Region for Cooperation and complete the change of registration for the relevant patents and patent application rights or jointly apply for patents from and including the day on which Shanghai Pharmaceuticals pays (on a cumulative basis) 50% of the preliminary research and development expenses of Such Pharmaceuticals after the signing of the Strategic Cooperation Agreement.

Intellectual property rights (unlimited by the Region for Cooperation) arising from the joint research and development after the entry of the Strategic Cooperation Agreement shall be shared by both parties. If any such intellectual property right is eligible for the application for patents (unlimited by the Region for Cooperation), both parties shall have joint ownership over such patents and the rights to such patent application; if patent application is not available at the relevant time, both parties shall jointly own such new proprietary technology.

The ownership and interest of the certificate of new drugs relating to Such Pharmaceuticals shall be jointly owned by both parties. Each party shall be entitled to 50% of the revenue of Each Pharmaceutical within the Region for Cooperation. Details of the allocation of revenue shall be separately agreed between both parties through negotiations prior to the commencement of production and sales of Each Pharmaceutical.

Having considered that (i) the terms and conditions of the Strategic Cooperation Agreement were entered into after arm-length negotiation between the parties; (ii) each party is entitled to 50% of the revenue of the Each Pharmaceutical within the Region for Cooperation; (iii) the parties share ownership jointly over the patents and rights to patent application relating to Such Pharmaceuticals within the Region for Cooperation; and (iv) the parties share the intellectual property rights arising from the joint research and development after the entry of the Strategic Cooperation Agreement, the Board is of the view that the allocation of the research and development expenses as to 80% by Shanghai Pharmaceuticals and as to 20% by the Company was entered into on normal commercial terms or better, and is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

INFORMATION ON SUCH PHARMACEUTICALS

Information relating to Such Pharmaceuticals for research and development cooperation under the Strategic Cooperation Agreement between the Company and Shanghai Pharmaceuticals is set out as follows:

1. Recombinant human lymphotoxin α -derivatives (LT) (重組人淋巴毒素 α 衍生物)

This project is owned by Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd., a subsidiary of the Company. It is a genetic engineering drug for combined therapy of tumors. The clinical trial Phase II of it has been completed and the Group will formulate a new research plan according to the trial result.

2. Vincristine sulfate liposome (LVCR) (硫酸長春新城脂質體)

LVCR is a liposome drug for use in tumor therapy. The clinical trial Phase I of it has been completed and the Group decided to transfer this project to a third party pharmaceutical company in consideration of its future prospect, production condition, payback period, etc.

3. Deuteroporphyrin (多替泊芬)

Deuteroporphyrin for injection is a photo dynamic therapy drug for use in tumor therapy and it is currently in the clinical trial Phase II.

4. High bio-activity recombinant human TNF receptor (重組高親和力TNF受體)

This project is owned by Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd., a subsidiary of the Company. It is a genetic engineering drug for use in arthritis therapy. It is currently in the clinical trial Phase I.

ANNUAL CAPS

Proposed annual caps

According to the terms of the Strategic Cooperation Agreement, the Company anticipated that the annual caps for the transactions under the Strategic Cooperation Agreement for the three years ending 31 December 2019 will be as follows:

	<i>1 January 2017 to 31 December 2017 (RMB)</i>	<i>1 January 2018 to 31 December 2018 (RMB)</i>	<i>1 January 2019 to 31 December 2019 (RMB)</i>
Proposed Annual Cap	28,000,000	28,000,000	28,000,000

Basis for the proposed annual caps

The above annual caps for the transactions under the Strategic Cooperation Agreement for the three years ending 31 December 2019 are determined with reference to the adjusted progress and budget (including the amount of preliminary research and development expenses) of the research and development of Such Pharmaceuticals listed in the Strategic Cooperation Agreement, the details of which are set out as follows:

Table 1: the total expected research and development fees to be incurred for the three financial years ending 31 December 2019

	<i>Year ended 31 December</i>			<i>Unit: RMB</i>
	2017	2018	2019	
Recombinant human lymphotoxin α -derivatives(LT) (重組人淋巴毒素 α 衍生物)	0	0	0	
Vincristine sulfate liposome (LVCR) (硫酸長春新城脂質體)	0	0	0	
Deuteroporphyrin (多替泊芬)	20,400,000	12,800,000	21,300,000	
Recombinant high affinity TNF receptor (重組高親和力TNF受體)	13,800,000	12,400,000	12,700,000	
Aggregated total expected research and development fees for current year	34,200,000	25,200,000	34,000,000	

Table 2: total amount of research and development expenses (including research and development expenses to be incurred and preliminary research and development expenses already incurred) received by the Company from Shanghai Pharmaceuticals for the three financial years ending 31 December 2019.

	<i>Year ended 31 December</i>			<i>Unit: RMB</i>
	2017	2018	2019	
80% of the research and development expenses to be prepaid by Shanghai Pharmaceuticals ^{Note 1}	27,360,000	20,160,000	27,200,000	
Preliminary fees of cooperation projects to be paid by Shanghai Pharmaceuticals (payment made according to agreed progress) ^{Note 2}	0	7,420,000	0	
Total amount to be paid and prepaid by Shanghai Pharmaceuticals for current year	<u>27,360,000</u>	<u>27,580,000</u>	<u>27,200,000</u>	

Notes:

1. Pursuant to the Strategic Cooperation Agreement, Shanghai Pharmaceuticals shall be responsible for 80% of the research and development expenses on Such Pharmaceuticals incurred commencing from 1 January 2017 (inclusive). These sums are to be paid to the Company for the three years ending 31 December 2019 (see the total sums in Table 1).

2. Pursuant to the Strategic Cooperation Agreement, Shanghai Pharmaceuticals shall be responsible for 80% of the preliminary research and development expenses on Such Pharmaceuticals incurred up to 31 December 2010. According to the progress of the project, Shanghai Pharmaceuticals may pay around RMB7.42 million by the end of 2018.

The Directors (including independent non-executive Directors) are of the view that the terms and conditions of the Strategic Cooperation Agreement and the Renewal Agreement have been entered into in the ordinary and usual business of the Company, on normal commercial terms and in the interests of the Company and its Shareholders as a whole, the annual caps of the transactions under the Strategic Cooperation Agreement (as renewed by the Renewal Agreement) are fair and reasonable.

INTERNAL CONTROL PROCEDURES

To ensure the Company's conformity with the pricing policy of the Strategic Cooperation Agreement, the Company adopts a series of internal control policies during its daily operation. Such internal control policies are conducted and supervised by the internal audit and control department of the Company, the independent non-executive Directors and the external auditors of the Company:

- (1). The internal audit and control department of the Company monitors daily connected transactions of the Company and reports to the audit committee of the Company and independent non-executive Directors together with the external auditors' report for their review and approval. The internal audit and control department of the Company supervises the connected transactions to ensure they were entered into: (i) in accordance with the pricing policies under the Strategic Cooperation Agreement; (ii) in the ordinary and usual course of business of the Group; (iii) on normal commercial terms or better; and (iv) according to the Strategic Cooperation Agreement on terms that are fair and reasonable and in the interests of the Company and Shareholders as a whole.
- (2). The independent non-executive Directors have reviewed and will continue to review the continuing connected transactions to ensure that the transactions have been entered into on normal commercial terms or better, and according to the Strategic Cooperation Agreement on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and provide confirmation in the Company's annual report.

- (3). The external auditors of the Company will also conduct an annual review on the pricing policies and annual caps of the Strategic Cooperation Agreement, and provide confirmation in the Company's annual report.

The Directors are of the view that the above internal control procedures can ensure that the transactions contemplated under the Strategic Cooperation Agreement will be conducted on normal commercial terms or better, and will not be prejudicial to the interests of the Company and the Shareholders.

The Board confirmed that the highest applicable percentage ratio with respect to the transaction amount under the Strategic Cooperation Agreement (as renewed by the Renewal Agreement) during the period from 1 January 2017 to the date of this announcement is below 0.1%.

REASONS FOR AND BENEFIT OF THE TRANSACTIONS

In view of the outstanding status of Shanghai Pharmaceuticals in the pharmaceutical industry, its strong capabilities and extensive experience in production, manufacturing, marketing and sales, and the research and development experience of the Company accumulated throughout the previous years, both parties are willing to share the risk of, and cooperate on, the research and development and commercialization of Such Pharmaceuticals. Since the Company has quite a number of research and development projects, as such research and development approaches more advanced stages, research and development expenses will continue to increase. Meanwhile, as there is a growing number of the Company's projects which are advancing into commercialization stage, investments in such commercialization will increase. Cooperation with Shanghai Pharmaceuticals on some projects will not only realize the value of the projects that are at different research and development stages, but will also secure funds for the effective commercialization development. This satisfies the development needs of the Company and is in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

Shanghai Pharmaceuticals is a promoter and substantial Shareholder of the Company and therefore, is a connected person of the Company under the Listing Rules. The transactions under the Strategic Cooperation Agreement (as renewed by the Renewal Agreement) will be carried out on a continuing or recurring basis in the ordinary and usual course of business of the Company and therefore, constitute continuing connected transactions of the Company under the Listing Rules.

Since the highest applicable percentage ratio for the highest proposed annual cap for each of the three years ending 31 December 2019 for the continuing connected transactions under the Strategic Cooperation Agreement (as renewed by the Renewal Agreement) exceeds 0.1% but is below 5%, such transactions are subject to the reporting and announcement requirements, but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Directors Ms. Ke Ying and Mr. Shen Bo currently hold senior positions in Shanghai Pharmaceuticals, they have abstained from voting on the resolution at the Board meeting for approving the Renewal Agreement. Save as mentioned above, none of other Directors has any material interest in the transactions and none of them has abstained from voting on the relevant Board resolution.

GENERAL INFORMATION

The Company is a bio-pharmaceutical company that is principally engaged in the research and development, manufacture and sales of drugs with patents or specific drugs, and provision of auxiliary service.

Shanghai Pharmaceuticals is a joint stock limited company incorporated in the PRC, whose A shares and H shares are listed on the Shanghai Stock Exchange and the Stock Exchange respectively. Shanghai Pharmaceuticals is principally engaged in research and development, manufacturing and sales of a broad range of pharmaceutical and healthcare products; pharmaceutical distribution, warehousing, logistics, and other value-added pharmaceutical supply chain solutions and related services to pharmaceutical manufacturers and dispensers, such as hospitals, distributors and retail pharmacies; and operation of a network of retail pharmacy stores.

DEFINITIONS

Unless the context otherwise requires, capitalized terms used in this announcement shall have the following meanings:

"Board"	means the board of Directors
"Company"	means 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 PRC, whose H shares are listed on the Main Board
"connected person"	has the same meaning ascribed to it under the Listing Rules
"Directors"	means the directors of the Company
"Group"	means the Company and its subsidiaries
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the main board of the Stock Exchange
"PRC"	means the People's Republic of China

"promoter"	has the same meaning ascribed to it under the Rule 1.01 of the Listing Rules
"Region for Cooperation"	the geographical scope within which the research and development, production and sales activities of Such Pharmaceuticals are conducted, i.e. in the PRC (including Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan)
"Renewal Agreement"	means the renewal agreement of the Strategic Cooperation Agreement entered into between the Company and Shanghai Pharmaceuticals on 10 May 2017
"RMB"	means renminbi, the lawful currency of the PRC
"Shanghai Pharmaceuticals"	means上海醫藥集團股份有限公司 Shanghai Pharmaceuticals Holding Co., Ltd.*, a joint stock limited company incorporated in the PRC whose A shares are listed on the Shanghai Stock Exchange and H shares are listed on the Stock Exchange, and a promoter and substantial Shareholder of the Company holding approximately 22.77% of the total issued share capital of the Company as at the date of this announcement
"Shareholder(s)"	means the shareholders of the Company
"Strategic Cooperation Agreement"	the strategic cooperation agreement for innovative pharmaceuticals research and development entered into between the Company and Shanghai Pharmaceuticals on 19 March 2013, pursuant to which both parties will jointly share the risks of, and cooperate on, the research and development and commercialization of the relevant potential pharmaceuticals owned by the Group which are at various research stages, and the term of which has been extended by the Renewal Agreement up to 31 December 2019
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited
" subsidiaries"	has the same meaning ascribed to it under the Listing Rules
"substantial shareholder"	has the same meaning ascribed to it under Rule 1.01 of the Listing Rules
"Such Pharmaceuticals" or "Each Pharmaceutical"	the relevant potential pharmaceuticals owned by the Group which are at various research stages, the research and development on which the Company and Shanghai Pharmaceuticals have agreed to cooperate under the Strategic Cooperation Agreement

“%”

per cent.

By order of the Board

Wang Hai Bo

Chairman

As at the date on the publication of this announcement, the Board comprises:

Mr. Wang Hai Bo (Executive Director)

Mr. Su Yong (Executive Director)

Mr. Zhao Da Jun (Executive Director)

Ms. Ke Ying (Non-executive Director)

Mr. Shen Bo (Non-executive Director)

Ms. Yu Xiao Yang (Non-executive Director)

Mr. Zhou Zhong Hui (Independent Non-executive Director)

Mr. Lam Yiu Kin (Independent Non-executive Director)

Mr. Xu Qing (Independent Non-executive Director)

Shanghai, the PRC

10 May 2017

** For identification purpose only*