

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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
SALES AND DISTRIBUTION AGREEMENT WITH
SHANGHAI PHARMACEUTICALS**

Reference is made to the announcement of the Company dated 17 August 2018 and the circular of the Company dated 14 September 2018 in relation to the Former Sales and Distribution Agreement entered into between the Company and Shanghai Pharmaceuticals and the continuing connected transactions thereunder. The Board announced that the Company entered into the Sales and Distribution Agreement with Shanghai Pharmaceuticals on 11 September 2019 for the sales and distribution of the Group's pharmaceutical products by the Shanghai Pharmaceuticals Group during the Contractual Period. The Former Sales and Distribution Agreement will be terminated immediately upon the Sales and Distribution Agreement becoming effective.

Shanghai Pharmaceuticals is a promoter of the Company and a substantial Shareholder, and is therefore a connected person of the Company under the Listing Rules. The Transactions under the Sales and Distribution 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 in respect of the proposed annual caps for the two years ending 31 December 2020 for the Transactions under the Sales and Distribution Agreement exceeds 5%, the Transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Shanghai Pharmaceuticals and its associates, holding approximately 22.77% of the total share capital of the Company as at the date of

this announcement, shall abstain from voting on the resolution at the EGM for approving the Sales and Distribution Agreement and the proposed annual caps. Save as mentioned above, to the best of the Directors' knowledge, information and belief, none of the other Shareholders has any material interest in the Transactions and therefore will be required to abstain from voting on the relevant resolution at the EGM.

The Board has appointed the Independent Board Committee, comprising four independent non-executive Directors, to advise the Independent Shareholders in relation to the Sales and Distribution Agreement and the proposed annual caps. The Independent Financial Adviser, Grande Capital Limited, has also been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) details of the Sales and Distribution Agreement and the proposed annual caps; (ii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee on the Sales and Distribution Agreement and the proposed annual caps; and (iii) a letter from the Independent Board Committee containing its recommendations on the Sales and Distribution Agreement and the proposed annual caps, is expected to be despatched to the Shareholders on or before 11 October 2019, since the Company needs more time to prepare and finalise certain information to be contained in the circular.

Reference is made to the announcement of the Company dated 17 August 2018 and the circular of the Company dated 14 September 2018 in relation to the Former Sales and Distribution Agreement entered into between the Company and Shanghai Pharmaceuticals and the continuing connected transactions thereunder. The Board announced that the Company entered into the Sales and Distribution Agreement with Shanghai Pharmaceuticals on 11 September 2019 for the sales and distribution of the Group's pharmaceutical products by the Shanghai Pharmaceuticals Group during the Contractual Period. The Former Sales and Distribution Agreement will be terminated immediately upon the Sales and Distribution Agreement becoming effective.

SALES AND DISTRIBUTION AGREEMENT

- Date:** 11 September 2019
- Parties:** The Company (for itself and/or on behalf of its subsidiaries), being the vendor; and
Shanghai Pharmaceuticals (for itself and/or on behalf of its subsidiaries and/or associates), being the purchaser
- Subject:** The Company has agreed to authorise the Shanghai Pharmaceuticals Group to sell and distribute the pharmaceutical products of the Group during the Contractual Period. The sales and distribution services to be provided to the Group by Shanghai Pharmaceuticals Group is on a non-exclusive basis with the terms of sales and distribution of each

specific pharmaceutical product to be agreed upon in accordance with the principles set out in the Sales and Distribution Agreement.

Pricing policy:

The price of the pharmaceutical products to be sold by the Group to the Shanghai Pharmaceuticals Group shall be determined on fair market basis with reference to the price of a particular pharmaceutical product as prescribed by the local statutory pricing authorities which will be adjusted by a reasonable profit margin of the Shanghai Pharmaceuticals Group for provision of sales and distribution services.

The abovementioned reasonable profit margin of the Shanghai Pharmaceuticals Group shall be determined with reference to (i) the profit margin of a comparable quantity of the similar products sold to at least two Independent Third Parties by the Group in the financial year when conducting the specific transactions under the Sales and Distribution Agreement; and (ii) the profit margin of a comparable quantity of the similar products sold to the Shanghai Pharmaceuticals Group by the Group in past transactions.

Such profit margin of the Shanghai Pharmaceuticals Group will be within a range from 5% to 10% of the price of the particular pharmaceutical product as prescribed by the local statutory pricing authorities. For the past transactions contemplated under the Former Sales and Distribution Agreement for the year ended 31 December 2018 and the six months ended 30 June 2019, the profit margin of Shanghai Pharmaceuticals Group provided by the Group was within the range from 5% to 10% of the price of the particular pharmaceutical product as prescribed by the local statutory pricing authorities.

Credit period of trade receivables:

The credit period granted to the Shanghai Pharmaceuticals Group by the Group in respect of the trade receivables generated under the Sales and Distribution Agreement will not exceed 4 months, which is not superior to the credit period granted to other customers of the Group.

Term:

The Sales and Distribution Agreement shall take effect upon execution by the duly authorised representatives with seal and approval by the relevant bodies of the parties (including the Board and the general meeting of the Company), with retrospective effect from 1 January 2019 and ending on 31 December 2020. The Former Sales and Distribution Agreement will be terminated immediately upon the Sales and Distribution Agreement becoming effective.

PROPOSED ANNUAL CAPS AND BASIS FOR THE PROPOSED ANNUAL CAPS

The annual caps of the continuing connected transactions under the Former Sales and Distribution Agreement for the two years ending 31 December 2019 were RMB46,000,000 and RMB62,000,000, respectively. Set out below is the summary of the historical amounts for the continuing connected transactions for the year ended 31 December 2018 and the six months ended 30 June 2019:

	For the year ended 31 December 2018 <i>(RMB)</i>	For the six months ended 30 June 2019 <i>(RMB)</i>
Continuing connected transactions under the Former Sales and Distribution Agreement	45,559,000	44,972,000

Since the Company continues to adjust the sales mode of certain products this year, the Group will sell and distribute a larger number of products through the Shanghai Pharmaceuticals Group in a broader area. The actual annual transaction amount of continuing connected transactions conducted under the Former Sales and Distribution Agreement is expected to exceed the existing annual cap of RMB62,000,000 for the year ending 31 December 2019.

The Company and Shanghai Pharmaceuticals estimated that the proposed annual caps of the Transactions for the two years ending 31 December 2020 are approximately RMB81,000,000 and RMB109,000,000, respectively.

The Directors have taken into account the following principal factors in estimating the proposed annual caps above:

- (i) According to the official website of Shanghai Pharmaceuticals Group, the Shanghai Pharmaceuticals Group has the third largest distribution network, covering 31 provinces, municipalities and autonomous regions as at the date of this announcement. At the same time, Shanghai Pharmaceuticals Group is gradually acquiring a series of companies to further extend its distribution network in recent years. Leveraging on the extensive network of the Shanghai Pharmaceuticals Group, the Group is able to sell its products to a broader area and effectively improves the market penetration and market share of the Group. The Group is also pleased to cooperate with the companies newly acquired by Shanghai Pharmaceuticals Group.
- (ii) The sales of ALA[®] (艾拉[®]) and LIBOd[®] (里葆多[®]), the major products of the Group, under the Former Sales and Distribution Agreement has been increasing considerably. The aggregate sales income generated by ALA[®] and LIBOd[®] under the Former Sales and Distribution Agreement was approximately RMB45,559,000

and RMB44,972,000 for the year ended 31 December 2018 and the six months ended 30 June 2019, respectively. The sales of the two products for the six months ended 30 June 2019 increased by approximately 38% as compared to that during the corresponding period in 2018. In addition, the Group continues to develop targeted promotional and marketing activities, which mainly include participating in seminars or other activities organized by relevant industry professional associations to introduce the past treatments of the products and organizing medical experts to share and analyse the related cases. Through these activities, the understanding of the patients, experts and relevant industry professional associations on the products of the Group has been deepened gradually, which facilitates the improvement of the market recognition of the products of the Group. After taking into account the abovementioned historical amounts, the promotional and marketing activities and the improvement in the market recognition of such pharmaceutical product, the Group and the Shanghai Pharmaceuticals Group anticipate that the aggregate sales under the Sales and Distribution Agreement will increase by approximately 78% and 35%, respectively, for the two years ending 31 December 2020; and

- (iii) The sales and distribution of LIBOd[®], one of the major products of the Group, was newly added in the transactions under the Former Sales and Distribution Agreement since the year of 2018. For LIBOd[®], the Company terminated the original exclusive agency on 15 December 2017 and entered into sales and distribution agreements with various pharmaceutical distributor companies respectively to entrust them to distribute LIBOd[®] in designated areas. In addition, in accordance with the requirement issued by relevant regulatory authorities, LIBOd[®] may opt to calculate VAT at the rate of 3% under the simplified calculation method. With the implementation of such tax policy, many small pharmaceutical distributor companies, including subsidiaries of Shanghai Pharmaceuticals Group, directly enter into sales and distribution agreements with the Group for the purpose of reducing tax costs. Such factors directly lead to the increase in the number of connected persons under the Sales and Distribution Agreement and the amounts of continuing connected transaction thereunder.

After taking into account the abovementioned factors, the Board considers the proposed annual caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

INTERNAL CONTROL PROCEDURES

To ensure the Company's conformity with the pricing policy of the Sales and Distribution 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:

- (i) The business manager of the sales department of the Company will be responsible for the determination of each specific price in accordance with the pricing policies under the Sales and Distribution Agreement (including taking into account the profit margin of a comparable quantity of the similar products sold to at least two

Independent Third Parties by the Group in the financial year when conducting the specific transactions under the Sales and Distribution Agreement), and will submit the prepared specific price quote to the management of the Company for review and approval in due course. After the approval, the sales department, the finance department and the internal audit and control department of the Company will monitor the implementation of the relevant price throughout the transaction on a joint basis, and will review the fairness and reasonableness of the price under the Sales and Distribution Agreement on an average quarterly basis and will assist the person in charge of sales to adjust the price (if necessary);

- (ii) The internal audit and control department of the Company monitors daily the 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: (1) in accordance with the pricing policy under the Sales and Distribution Agreement; (2) in the ordinary and usual course of business of the Group; (3) on normal commercial terms or better; and (4) according to the Sales and Distribution Agreement on terms that are fair and reasonable and in the interests of the Company and Shareholders as a whole;
- (iii) The independent non-executive Directors have reviewed and will continue to review the continuing connected transactions to confirm in the annual report whether the transactions have been entered into on normal commercial terms or better, and according to the Sales and Distribution Agreement on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (iv) The external auditors of the Company will also conduct an annual review on the pricing policy and annual caps of the Sales and Distribution 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 Sales and Distribution 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 annual caps under the Former Sales and Distribution Agreement shall apply to the continuing connected transactions conducted during the period from 1 January 2019 to the date of the Sales and Distribution Agreement and the proposed annual caps being approved by the Independent Shareholders at the EGM.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Company conducts the Transactions with the Shanghai Pharmaceuticals Group in order to leverage on the established and extensive sales and distribution network of the Shanghai Pharmaceuticals Group. The Directors (excluding the independent non-executive Directors, whose opinion will be set forth in the circular by reference to the

advice of the Independent Financial Adviser in this regard) are of the view that the terms of the Sales and Distribution Agreement are made on an arm's length basis in the ordinary and usual course of business of the Company and are normal commercial terms which are no less favourable than the terms available from Independent Third Parties, and that the terms of the Sales and Distribution Agreement and the proposed annual caps thereof are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Shanghai Pharmaceuticals is a promoter of the Company and a substantial Shareholder, and therefore is a connected person of the Company under the Listing Rules. The Transactions under the Sales and Distribution 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 in respect of the proposed annual caps for the two years ending 31 December 2020 for the Transactions under the Sales and Distribution Agreement exceeds 5%, the Transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Shanghai Pharmaceuticals and its associates, holding approximately 22.77% of the total issued share capital of the Company as at the date of this announcement, are required to abstain from voting on the resolution at the EGM for approving the Sales and Distribution Agreement and the proposed annual caps. Save as mentioned above, to the best of the Directors' knowledge, information and belief, none of the other Shareholders has any material interest in the Transactions and therefore will be required to abstain from voting on the relevant resolution at the EGM.

Mr. Shen Bo, the Director, has abstained from voting on the Board resolution approving the Sales and Distribution Agreement since he serves as a director at Shanghai Pharmaceuticals. Save as mentioned above, no other Director has a material interest in the Transactions and hence no other Director has abstained from voting on such Board resolution.

The Board has appointed the Independent Board Committee, comprising four independent non-executive Directors, to advise the Independent Shareholders in relation to the Sales and Distribution Agreement and the proposed annual caps. The Independent Financial Adviser, Grande Capital Limited, has also been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) details of the Sales and Distribution Agreement and the proposed annual caps; (ii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee on the Sales and Distribution Agreement and the proposed annual caps; and (iii) a letter from the

Independent Board Committee containing its recommendation on the Sales and Distribution Agreement and the proposed annual caps, is expected to be despatched to the Shareholders on or before 11 October 2019, since the Company needs more time to prepare and finalise certain information to be contained in the circular.

GENERAL INFORMATION

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

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 sale 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:

"associates"	has the same meaning ascribed to it under the Listing Rules
"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
"Contractual Period"	means the period from 1 January 2019 to 31 December 2020
"Directors"	means the directors of the Company
"EGM"	means the extraordinary general meeting to be held by the Company to consider and, if thought fit, approve, among other things, the continuing connected transactions contemplated under the Sales and Distribution Agreement

	and the proposed annual caps
"Former Sales and Distribution Agreement"	means the sales and distribution agreement entered into between the Company and Shanghai Pharmaceuticals on 17 August 2018 for the continuing connected transactions contemplated thereunder for the two years ending 31 December 2019, details of which were set out in the circular of the Company dated 14 September 2018
"Group"	the Company and/or its subsidiaries
"Independent Board Committee"	means an independent committee of Directors appointed to advise the Independent Shareholders in respect of the Sales and Distribution Agreement and the proposed annual caps
"Independent Financial Adviser"	Grande Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sales and Distribution Agreement and the proposed annual caps
"Independent Shareholders"	the Shareholders excluding Shanghai Pharmaceuticals and its associates, who are not required to abstain from voting on the resolution at the EGM for approving the continuing connected transactions contemplated under the Sales and Distribution Agreement and the proposed annual caps
"Independent Third Party(ies)"	means third party(ies) who is (are) not connected persons of the Company as defined in the Listing Rules and is (are) independent of the Company and the connected persons of the Company
"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	means 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 Listing Rules

"RMB"	means renminbi, the lawful currency of the PRC
"Sales and Distribution Agreement"	means the sales and distribution agreement entered into between the Company and Shanghai Pharmaceuticals on 11 September 2019 for the sale and distribution of the Group's pharmaceutical products during the Contractual Period
"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 of the Company and a substantial Shareholder holding approximately 22.77% of the total share capital of the Company as at the date of this announcement
"Shanghai Pharmaceuticals Group"	means Shanghai Pharmaceuticals and/or its subsidiaries and/or associates
"Shareholder(s)"	means the shareholder(s) of the Company
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the same meaning ascribed to it under the Listing Rules
"substantial Shareholder"	has the same meaning ascribed to it under the Listing Rules
"Transactions"	means the continuing connected transactions contemplated under the Sales and Distribution Agreement entered into between the Company and Shanghai Pharmaceuticals on 11 September 2019
"%"	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)

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)

Mr. Yang Chun Bao (Independent Non-executive Director)

Shanghai, the PRC

11 September 2019

** For identification purpose only*