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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 SALES AND DISTRIBUTION AGREEMENT WITH SHANGHAI PHARMACEUTICALS**

Reference is made to the announcements of the Company dated 18 March 2016 and 21 March 2016 in relation to the Renewal Agreement of the Former Sales and Distribution Agreement entered into between the Company and Shanghai Pharmaceutical Distribution and the continuing connected transactions thereunder. The Board announces that the Company has entered into the Sales and Distribution Agreement with Shanghai Pharmaceuticals on 17 August 2018 for the sales and distribution of the Group's pharmaceutical products by the Shanghai Pharmaceuticals Group during the Contractual Period. The Renewal Agreement of 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 2019 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 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. An 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 advices 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 14 September 2018, since the Company needs more time to prepare and finalise certain information to be contained in the circular.

Reference is made to the announcements of the Company dated 18 March 2016 and 21 March 2016 in relation to the Renewal Agreement of the Former Sales and Distribution Agreement entered into between the Company and Shanghai Pharmaceutical Distribution and the continuing connected transactions thereunder. The Board announces that the Company has entered into the Sales and Distribution Agreement with Shanghai Pharmaceuticals on 17 August 2018 for the sales and distribution of the Group's pharmaceutical products by the Shanghai Pharmaceuticals Group during the Contractual Period. The Renewal Agreement of the Former Sales and Distribution Agreement will be terminated immediately upon the Sales and Distribution Agreement becoming effective.

## **SALES AND DISTRIBUTION AGREEMENT**

**Date** : 17 August 2018

**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 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 government-prescribed price of a particular pharmaceutical product as prescribed by the local statutory pricing authorities (for instance, the local price bureau) 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 at the same period; 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 government-prescribed 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 2018 and ending on 31 December 2019. The Renewal Agreement of 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 historical amounts for the continuing connected transactions conducted under the Renewal Agreement of the Former Sales and Distribution Agreement for the two years ended 31 December 2017 were RMB11,945,000 and RMB13,037,000, respectively, while the annual caps were RMB20,000,000 and RMB22,000,000, respectively. Due to adjustment of the sales mode of certain products since this year, the Group will sell and distribute a larger number of products through the Shanghai Pharmaceuticals Group in a broader area. The continuing connected transactions conducted under the Renewal Agreement of the Former Sales and Distribution Agreement for the six months ended 30 June 2018 amounted to RMB17,502,000, and is expected to exceed the proposed annual cap of RMB24,000,000 for the year ending 31 December 2018 as agreed in the Renewal Agreement of the Former Sales and Distribution Agreement.

The Company and Shanghai Pharmaceuticals estimated that the proposed annual caps of the Transactions for the two years ending 31 December 2019 are approximately RMB46,000,000 and RMB62,000,000, respectively.

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

- (i) The sales of ALA (艾拉®), one of the major products of the Group, under the Renewal Agreement of the Former Sales and Distribution Agreement have been increasing considerably. The sales revenue of ALA for the six months ended 30 June 2018 increased by approximately 29% as compared to the corresponding period in 2017. The Directors anticipate that the sales of ALA under the Sales and Distribution Agreement would continue to increase significantly for the two years ending 31 December 2019 after taking into account the historical amounts, the promotional/marketing activities and the improvement in the market recognition of such pharmaceutical product; and

- (ii) The sales and distribution of LIBOd<sup>®</sup> (里葆多<sup>®</sup>), another major product of the Group, is newly added in the Sales and Distribution Agreement as compared to the Renewal Agreement of the Former Sales and Distribution Agreement. For LIBOd<sup>®</sup>, the Company terminated the original exclusive agency on 15 December 2017, formed a new oncology drug promotion team which is responsible for related sales and promotion work, and commissioned the Shanghai Pharmaceuticals Group for distribution in some regions. Thus, the sales and distribution amounts will be increased under the Sales and Distribution Agreement. The Directors anticipate that the sales of LIBOd<sup>®</sup> under the Sales and Distribution Agreement would continue to increase for the two years ending 31 December 2019 after taking into account the historical amounts, the promotional/marketing activities and the market recognition of such pharmaceutical product.

## **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 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: (i) in accordance with the pricing policy under the Sales and Distribution 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 Sales and Distribution Agreement on terms that are fair and reasonable and in the interests of the Company and Shareholders as a whole;
- (ii) 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 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 provide confirmation in the Company's annual report; and
- (iii) 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 Renewal Agreement of the Former Sales and Distribution Agreement shall apply to the continuing connected transactions conducted during the period from 1 January 2018 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 BENEFIT OF THE TRANSACTIONS**

The Company conducts the Transactions with the Shanghai Pharmaceuticals Group in order to leverage 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 2019 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 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.

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. An 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 14 September 2018, since the Company needs more time to prepare and finalise certain information to be contained in the circular.

## **GENERAL INFORMATION**

The Company is a bio-pharmaceutical company that is principally engaged in the research and development, manufacture and sales of new drugs with patents or specific drugs, and the 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 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 2018 to 31 December 2019
"Directors"	means the directors of the Company
"EGM"	means the extraordinary general meeting to be held by the Company to consider and 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 Pharmaceutical Distribution on 19 March 2013 for the continuing connected transactions contemplated thereunder for the three years ended 31 December 2015, details of which were set out in the circular of the Company dated 12 April 2013
"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 third party(ies)"	means independent 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
"Independent Shareholders"	the Shareholders excluding Shanghai Pharmaceuticals and its associates, who are not be 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
"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 Rule 1.01 of the Listing Rules
"Renewal Agreement of the Former Sales and Distribution Agreement"	means the renewal agreement of the Former Sales and Distribution Agreement entered into between the Company and Shanghai Pharmaceutical Distribution on 18 March 2016 for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2018, details of which were set out in the announcements of the Company dated 18 March 2016 and 21 March 2016
"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 17 August 2018 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
"Shanghai Pharmaceutical Distribution"	means 上藥控股有限公司 Shanghai Pharmaceutical Co., Ltd.* (formerly known as 上海醫藥分銷控股有限公司 Shanghai Pharmaceutical Distribution Co., Ltd.*), a limited liability company established in the PRC and a wholly-owned subsidiary of Shanghai Pharmaceuticals
"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 Rule 1.01 of the Listing Rules

"Transactions" means the continuing connected transactions under the Sales and Distribution Agreement entered into between the Company and Shanghai Pharmaceuticals on 17 August 2018

"%" 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

17 August 2018

*\* For identification purpose only*