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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

THE SALES AND DISTRIBUTION AGREEMENT

The Board announced that, on 30 March 2023 (after trading hours), the Company entered into the Sales and Distribution Agreement with Shanghai Pharmaceuticals to renew the Former Sales and Distribution Agreement. For more details of the Former Sales and Distribution Agreement, please refer to the announcements of the Company dated 29 October 2020 and the circular of the Company dated 27 November 2020. Pursuant to the Sales and Distribution Agreement, the Group's pharmaceutical products will be sold and distributed by the Shanghai Pharmaceuticals Group during the Contractual Period.

IMPLICATIONS UNDER THE LISTING RULES

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 Chapter 14A of the Listing Rules.

As one or more of the percentage ratios in respect of the proposed annual caps for the three years ending 31 December 2026 for the Transactions under the Sales and Distribution Agreement are expected to exceed 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 20.42% 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 AGM 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 AGM.

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 supplemental circular for the AGM 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 12 May 2023, since the Company needs more time to prepare and finalise certain information to be contained in the supplemental circular.

BACKGROUND

The Board announced that, on 30 March 2023 (after trading hours), the Company entered into the Sales and Distribution Agreement with Shanghai Pharmaceuticals to renew the Former Sales and Distribution Agreement. For more details of the Former Sales and Distribution Agreement, please refer to the announcement of the Company dated 29 October 2020 and the circular of the Company dated 27 November 2020. Pursuant to the Sales and Distribution Agreement, the Group's pharmaceutical products will be sold and distributed by the Shanghai Pharmaceuticals Group during the Contractual Period.

The principal terms of the Sales and Distribution Agreement are substantially the same as the Former Sales and Distribution Agreement.

PRINCIPAL TERMS OF THE SALES AND DISTRIBUTION AGREEMENT

- Date:** 30 March 2023
- 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 the 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 under the Former Sales and Distribution Agreement for the years ended 31 December 2021 and 2022, the profit margin of the 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 shall not exceed 4 months, which is not better than the credit period granted to other customers of the Group.

Contractual Period: From 1 January 2024 to 31 December 2026, subject to the execution and seal by the duly authorised representatives of the Sales and Distribution Agreement and approval by the relevant bodies of the parties (including 19th meeting of the seventh session of the Board and 2022 AGM of the Company).

HISTORICAL TRANSACTION AMOUNTS, PROPOSED ANNUAL CAPS AND BASIS FOR DETERMINATION OF THE PROPOSED ANNUAL CAPS

Historical transaction amounts

The annual caps of the continuing connected transactions under the Former Sales and Distribution Agreement for the three years ending 31 December 2023 were approximately RMB144,000,000, RMB182,000,000 and RMB228,000,000, respectively. Set out below is the historical transaction amounts for the continuing connected transactions under the Former Sales and Distribution Agreement for the years ended 31 December 2021 and 2022:

	For the year ended 31 December	
	2021	2022
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Actual transaction amount of continuing connected transactions under the Former Sales and Distribution Agreement	139,483	124,033

Proposed annual caps

With the continuing increase in the market demand of the Group's products and the further expansion of the distribution network of the Shanghai Pharmaceuticals Group, the Group is expected to sell and distribute more products through the Shanghai Pharmaceuticals Group in a broader area. The Company and Shanghai Pharmaceuticals estimated that the proposed annual caps of the Transactions for the three years ending 31 December 2026 are approximately RMB226,000,000, RMB241,000,000 and RMB260,000,000, respectively.

Basis for determination of the proposed annual caps

According to the market report of a PRC Pharmaceutical trade association, the Shanghai Pharmaceuticals Group ranked the second in terms of sales and revenues among pharmaceutical product suppliers in the PRC in the years 2021-2022. Its direct distribution network covers 31 provinces, municipalities and autonomous regions with extensive distribution network in the PRC. Shanghai Pharmaceuticals Group also provides pharmaceutical supply chain management, information technology and logistics support to meet with the medical demand of hospitals, clinics and the public. The online and offline marketing channel run by Shanghai Pharmaceuticals Group covers more than 2,000 chained pharmacies in 16 provinces, municipalities and autonomous regions in the PRC. 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 Directors have taken into account the following principal factors in estimating the proposed annual caps above:

- (i) the historical transaction values under Former Sales and Distribution Agreement, where approximately 96.9% of the historical annual caps under the Former Sales and Distribution Agreement were utilised by the Group for the year ended 31 December 2021, while the transaction value for the year ended 31 December 2022 was influenced by the external environment in 2022;
- (ii) the expected sale volume of the product to be supplied under the Sales and Distribution Agreement. The Former Sales and Distribution Agreement and the Sales and Distribution Agreement involve the sales of ALA (艾拉[®]) and LIBOd[®] (里葆多[®]), the major products of the Group. The sales volume of the two products are expected to bound back and resume its growth trajectory in 2023, as the operation and business activities of the Group resumed normal after the impact of the external environment diminished;
- (iii) the marketing and promotion activities of the Group's pharmaceutical products, which will likely to contribute to the increase in sales volume from 2023 onwards; and
- (iv) a buffer of 10% to capture unforeseen market opportunities.

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 the 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 in 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 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 selling price 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 Audit Committee 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 cap implementation for transactions of the Sales and Distribution Agreement, and issue an independent auditor's assurance report on continuing connected transactions.

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.

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 supplemental AGM circular by reference to the advice of the Independent Financial Adviser) 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 interests 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 Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual caps for the three years ending 31 December 2026 for the Transactions under the Sales and Distribution Agreement are expected to exceed 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 20.42% 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 AGM 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 AGM.

Mr. Shen Bo, the non-executive 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.

FORMATION OF INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

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.

SUPPLEMENTAL AGM CIRCULAR

A supplemental circular for the AGM 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 12 May 2023, since the Company needs more time to prepare and finalise certain information to be contained in the supplemental circular.

GENERAL INFORMATION

The Company is a bio-pharmaceutical company that is principally engaged in the innovative research and development, production and manufacture and sales of bio drugs.

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. The ultimate corporate shareholder of Shanghai Pharmaceuticals is Shangshi Holding, a company incorporated in Hong Kong. The actual controller of Shangshi Holding is Assets Supervision and Administration Commission of Shanghai Municipal Government, which is mainly responsible for supervision and administration of state-owned assets in Shanghai.

DEFINITIONS

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

“AGM”	the annual general meeting of the Company to be held at 10:00 a.m. on Tuesday, 30 May 2023, to consider and, if thought fit, to approve, amongst other, the continuing connected transactions contemplated under the Sales and Distribution Agreement and the proposed annual caps
“A Share(s)”	the ordinary share(s) with a nominal value of RMB0.1 each in the share capital of the Company which are listed on the Sci-Tech Innovation Board of the Shanghai Stock Exchange, and are subscribed for and traded in RMB
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	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 PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange (stock code: 01349) and the A Shares of which are listed on the Sci-Tech Innovation Board of the Shanghai Stock Exchange (stock code: 688505)
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“Contractual Period”	the period from 1 January 2024 to 31 December 2026 (both dates inclusive)
“Director(s)”	the director(s) of the Company
“Former Sales and Distribution Agreement”	the sales and distribution agreement entered into between the Company and Shanghai Pharmaceuticals on 29 October 2020 for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2023, details of which were set out in the circular of the Company dated 27 November 2020
“Group”	the Company and/or its subsidiaries
“H Share(s)”	overseas listed foreign share(s) with a nominal value of RMB0.10 each in the share capital of the Company which are listed on the Stock Exchange and are subscribed for and traded in Hong Kong dollars
“Independent Board Committee”	an independent committee of independent non-executive 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 1 (dealing in Securities) and 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 AGM for approving the continuing connected transactions contemplated under the Sales and Distribution Agreement and the proposed annual caps
“Independent Third Party(ies)”	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”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the Main Board of the Stock Exchange
“PRC”	the People’s Republic of China
“promoter”	has the same meaning ascribed to it under the Listing Rules
“RMB”	Renminbi, the lawful currency of the PRC
“Sales and Distribution Agreement”	the sales and distribution agreement entered into between the Company and Shanghai Pharmaceuticals on 30 March 2023 for the sale and distribution of the Group’s pharmaceutical products during the Contractual Period
“Shanghai Pharmaceuticals”	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 20.42% of the total share capital of the Company as at the date of this announcement
“Shanghai Pharmaceuticals Group”	Shanghai Pharmaceuticals and/or its subsidiaries and/or associates
“Shangshi Holding”	上海實業(集團)有限公司 (Shanghai Industrial Investment (Holdings) Company Limited), a company incorporated in Hong Kong with limited liability and an ultimate corporate shareholder of Shanghai Pharmaceuticals
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	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”	the continuing connected transactions contemplated under the Sales and Distribution Agreement entered into between the Company and Shanghai Pharmaceuticals on 30 March 2023
“%”	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
30 March 2023

** For identification purpose only*