

# **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in doubt** as to any aspect of this circular or as to the action taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or otherwise transferred** all your shares in 上海復旦張江生物醫藥股份有限公司 Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.\*, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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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 limited company incorporated in the People's Republic of China)*

**(Stock code: 8231)**

### **DISCLOSEABLE TRANSACTION — CAPITAL INCREASE IN TAIZHOU PHARMACEUTICAL AND CONTINUING CONNECTED TRANSACTIONS — SALES AND DISTRIBUTION AGREEMENT WITH SHANGHAI PHARMACEUTICAL**

**Independent Financial Adviser to the  
Independent Board Committee and the Independent Shareholders**



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A letter from the Board is set out on pages 4 to 12 of this circular. A letter from the Independent Board Committee is set out on pages 13 to 14 of this circular.

A letter of advice from Mega Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 15 to 22 of this circular.

A notice convening the EGM to be held at 2nd Floor, No. 308 Cailun Road, Zhangjiang Hi-teck Park, Pudong, Shanghai, the PRC on Friday, 6 July 2007 at 10:00 a.m. is set out on pages 29 to 30 of this circular. A proxy form for use at the EGM is also enclosed with this circular. Whether you are able or not to attend the meeting in person, you are requested to complete and return the accompanying proxy form in accordance with the instructions printed thereon to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 46/F Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the meeting or any adjourned meeting should you so desire.

\* For identification purpose only

15 May 2007

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## CHARACTERISTICS OF GEM

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**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at *www.hkgem.com* in order to obtain up-to-date information on GEM-listed issuers.**

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“Audit Committee”	means the audit committee of the Company
“associates”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	means the board of Directors
“Capital Increase Agreement”	means the Capital Increase Agreement entered into among the Company, Taizhou Huasheng and Taizhou Huayuan on 16 April 2007
“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 GEM
“connected person”	has the meaning ascribed to it under the GEM Listing Rules
“Contractual Period”	means the period from 1 April 2007 to 31 December 2009 as stipulated in the Sales and Distribution Agreement.
“Directors”	means the directors of the Company
“Domestic Shares”	means the domestic shares of RMB1.00 each in the share capital of the Company
“EGM”	means extraordinary general meeting of the Company to be held at 2nd Floor, No. 308 Cailun Road, Zhangjiang Hi-Tech Park, Pudong, Shanghai, the PRC on Friday, 6 July 2007 at 10:00 a.m. to consider and approve, inter alia, the transaction under the Capital Increase Agreement and the Transactions
“GEM”	means the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	means the Rules Governing the Listing of Securities on the GEM
“Group”	means the Company and its subsidiaries
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“H Shares”	means H shares of the Company, which has been listed on the GEM
“Huaxin Pharmaceutical”	means 華信藥業有限公司 Huaxin Pharmaceutical Co. Ltd.*, a limited liability company incorporated in the PRC and an Independent Third Party

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## DEFINITIONS

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“Independent Board Committee”	means the independent committee of the Directors appointed to advise the Independent Shareholders pursuant to the requirements of the GEM Listing Rules
“Independent Shareholders”	means the Shareholders who are not required to abstain from voting on the resolution for approving the Transactions under the GEM Listing Rules
“Independent Third Party(ies)”	to the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, party(ies) who is (are) independent from the Company and its connected persons
“Latest Practicable Date”	11 May 2007, the latest practicable date prior to the printing of this circular for the ascertaining certain information contained herein
“Mega Capital”	Mega Capital (Asia) Company Limited, a licensed corporation to carry on types 1 and 6 regulated activities under the SFO and is the independent financial adviser to the Independent Board Committee and Independent Shareholders in relation to the Transactions
“PRC”	means the People’s Republic of China
“promoter”	has the same meaning ascribed to it under the Rule 1.01 of the GEM Listing Rules
“R&D”	means research and development
“RMB”	means Renminbi, the lawful currency of the PRC
“Sales and Distribution Agreement”	means the annual sales and distribution agreement entered into between the Company and Shanghai Pharmaceutical on 25 April 2007
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Pharmaceutical”	means 上海市醫藥股份有限公司 Shanghai Pharmaceutical Co., Ltd.*, a joint stock limited company incorporated in the PRC and a promoter and substantial shareholder of the Company
“Shareholders”	means holders of the shares of the Company
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and “subsidiaries” shall be construed accordingly

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## DEFINITIONS

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“substantial shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“Taizhou Huasheng”	means 泰州華盛投資開發有限公司 Taizhou Huasheng Investment Development Company Limited*, a company incorporated in the PRC and an Independent Third Party
“Taizhou Huayuan”	means 泰州醫藥科技園華源投資發展有限公司 Taizhou Pharmaceutical Science Park Huayuan Investment Development Company Limited*, a company incorporated in the PRC and an Independent Third Party
“Taizhou Pharmaceutical”	means 泰州復旦張江藥業有限公司 Taizhou Fudan-Zhangjiang Pharmaceutical Company Limited*, a limited liability company incorporated in the PRC and a subsidiary of the Company
“Transactions”	means the continuing connected transactions between the Company and Shanghai Pharmaceutical under the Sales and Distribution Agreement
“%”	per cent.

\* For identification purpose only



上海復旦張江生物醫藥股份有限公司  
**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.\***  
(a joint stock limited company incorporated in the People's Republic of China)  
(Stock code: 8231)

*Executive Directors*

Mr. Wang Hai Bo (*Chairman*)  
Mr. Su Yong  
Mr. Zhao Da Jun

*Non-executive Directors*

Mr. Jiang Guo Xing  
Ms. Fang Jing  
Mr. Zhou Jie  
Mr. Guo Jun Yu  
Mr. Zhou Mai

*Independent non-executive Directors*

Mr. Pan Fei  
Mr. Cheng Lin  
Mr. Weng De Zhang

*Registered office and principal place of  
business in the PRC*

308 Cailun Road,  
Zhangjiang Hi-Tech Park  
Pudong Shanghai 201203  
PRC

*Principal place of business  
in Hong Kong*

15/F, The Bank of East Asia Building,  
10 Des Voeux Road Central  
Hong Kong

15 May 2007

*To the Shareholders,*

Dear Sir or Madam

**DISCLOSEABLE TRANSACTION —  
CAPITAL INCREASE IN TAIZHOU PHARMACEUTICAL  
AND  
CONTINUING CONNECTED TRANSACTIONS  
SALES AND DISTRIBUTION AGREEMENT WITH  
SHANGHAI PHARMACEUTICAL**

**1. INTRODUCTION**

At the forthcoming EGM, resolutions will be proposed to seek the Shareholders' or Independent Shareholders' approval (as the case may be) for, among other things, (i) the transaction under the Capital Increase Agreement; and (ii) the Transactions.

\* For identification purpose only

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with further details of the transaction under the Capital Increase Agreement and the Transactions, the advice of Mega Capital to the Independent Board Committee and the Independent Shareholders in relation to the Transactions, the recommendation of the Independent Board Committee in relation to the Transactions and a notice convening the EGM. This circular contains all information necessary to allow the Shareholders to make a properly informed decision.

### **2. DISCLOSEABLE TRANSACTION — CAPITAL INCREASE IN TAIZHOU PHARMACEUTICAL**

Reference is made to the announcement of the Company dated 18 April 2007, in which the Board announced that the Company, Taizhou Huasheng and Taizhou Huayuan entered into the Capital Increase Agreement on 16 April 2007, pursuant to which Taizhou Huasheng and Taizhou Huayuan agreed to subscribe the registered capital of RMB5,000,000 and RMB1,000,000 of Taizhou Pharmaceutical respectively.

#### **a. DETAILS OF THE CAPITAL INCREASE AGREEMENT**

*Particulars of the Capital Increase Agreement are set out below:*

##### **Date**

16 April 2007

##### **Parties**

1. The Company, the holding company of Taizhou Pharmaceutical
2. Taizhou Huasheng, an Independent Third Party
3. Taizhou Huayuan, an Independent Third Party



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## LETTER FROM THE BOARD

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### Particulars

Pursuant to the Capital Increase Agreement, Taizhou Huasheng and Taizhou Huayuan have agreed to subscribe the registered capital of RMB5,000,000 and RMB1,000,000 of Taizhou Pharmaceutical at RMB25,000,000 and RMB5,000,000 respectively, representing a premium of 500% of the value of the registered capital. The shareholding structure of Taizhou Pharmaceutical before and after the completion of the Capital Increase Agreement is as follows:

	<b>Amount of registered capital in Taizhou Pharmaceutical immediately before the completion of the Capital Increase Agreement (Approximate % of the registered capital in Taizhou Pharmaceutical)</b>	<b>Amount of registered capital in Taizhou Pharmaceutical immediately after the completion of the Capital Increase Agreement (Approximate % of the registered capital of Taizhou Pharmaceutical)</b>
The Company	60,000,000 (100%)	60,000,000 (90.9%)
Taizhou Huasheng	—	5,000,000 (7.6%)
Taizhou Huayuan	—	1,000,000 (1.5%)
Total	RMB60,000,000 (100%)	RMB66,000,000 (100%)

Taizhou Huasheng is a wholly-owned subsidiary of Huaxin Pharmaceutical, which is also holding 25% equity interest in Taizhou Huayuan. The remaining 75% equity interest of Taizhou Huayuan is held by an individual, who is also an Independent Third Party. The Company confirmed that, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Taizhou Huasheng and Taizhou Huayuan and their respective ultimate beneficial owners, are Independent Third Parties. Taizhou Pharmaceutical will continue to be a subsidiary of the Company immediately following the completion of the Capital Increase Agreement.

### Consideration

The total consideration for the increase of registered capital of RMB6,000,000 under the Capital Increase Agreement is RMB30,000,000, which will be payable by Taizhou Huasheng and Taizhou Huayuan in cash in the following manner:

1. a total amount of RMB25,000,000 for the contribution of a registered capital of RMB5,000,000 will be paid by Taizhou Huasheng in two tranches: RMB15,000,000 will be paid within 15 days from the effective date of the Capital Increase Agreement and the remaining balance of RMB10,000,000 will be paid on or before 31 December 2007; and
2. a total amount of RMB5,000,000 for the contribution of a registered capital of RMB1,000,000 will be paid by Taizhou Huayuan within 15 days from the effective date of the Capital Increase Agreement.

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## LETTER FROM THE BOARD

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The consideration under the Capital Increase Agreement was determined by the parties with reference to the asset value of a pharmaceutical technology of RMB40,000,000, which was injected into Taizhou Pharmaceutical by the Company at the date of incorporation of Taizhou Pharmaceutical, the estimated value of five other pharmaceutical technologies which were acquired from the Company by Taizhou Pharmaceutical and the expected return of Taizhou Pharmaceutical in the future. The Capital Increase Agreement will be effective from the date of signing of the agreement by the respective parties and upon the approval (where appropriate) by the Shareholders.

b. ***FINANCIAL EFFECTS OF THE CAPITAL INCREASE AGREEMENT***

Following the completion of the Capital Increase Agreement, Taizhou Pharmaceutical's cash position will be improved and shareholders' equity of Taizhou Pharmaceutical will increase.

c. ***REASONS AND BENEFITS OF THE CAPITAL INCREASE AGREEMENT***

The intangible asset that the Company invested in Taizhou Pharmaceutical, are some of the pharmaceutical projects under R&D, the continuing development of which requires a large amount of funding. The capital increase under the Capital Increase Agreement can provide financial support to these projects.

The Directors consider that the terms of Capital Increase Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

3. **CONTINUING CONNECTED TRANSACTIONS — SALES AND DISTRIBUTION AGREEMENT WITH SHANGHAI PHARMACEUTICAL**

Reference is made to the announcement of the Company dated 27 April 2007, in which the Directors announced that the Company and Shanghai Pharmaceutical, a promoter and substantial shareholder of the Company, entered into the Sales and Distribution Agreement on 25 April 2007, pursuant to which the Company has agreed to authorise Shanghai Pharmaceutical to sell and distribute the pharmaceutical products of the Company within Shanghai for the Contractual Period.

a. ***DETAILS OF SALES AND DISTRIBUTION AGREEMENT***

**Date**

25 April 2007

**Parties**

1. The Company
2. Shanghai Pharmaceutical, a promoter and substantial shareholder of the Company

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## LETTER FROM THE BOARD

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### **Particulars**

Pursuant to the Sales and Distribution Agreement, the Company and Shanghai Pharmaceutical agreed that the Company has agreed to authorise Shanghai Pharmaceutical to sell and distribute the pharmaceutical products of the Company within Shanghai during the Contractual Period. The sales and distribution services to be provided to the Company is on a non-exclusive basis with the terms of sales and distribution of each specific pharmaceutical products agreed in accordance with the principles set out in the Sales and Distribution Agreement. The parties agreed that the general pricing principle of the pharmaceutical products to be sold under the Sales and Distribution Agreement shall be determined with reference to the statutory selling price of a particular product and the provision of a reasonable profit margin to Shanghai Pharmaceutical. The actual price may, subject to mutual agreement between the Company and Shanghai Pharmaceutical, be adjusted from time to time based on the actual sales volume of the drug, the quality of sales services provided by Shanghai Pharmaceutical and the share of promotion cost between both parties. The selling price of the products of the Company to be sold under Sales and Distribution Agreement shall be similar to that available to Independent Third Party. Either party is entitled to give the other party prior written notice to terminate the Sales and Distribution Agreement and the term of the Sales and Distribution Agreement can be extended by mutual agreement.

#### **b. CONNECTION BETWEEN THE PARTIES**

Shanghai Pharmaceutical is a promoter and substantial shareholder of the Company. As at the Latest Practicable Date, Shanghai Pharmaceutical held an equity interest of approximately 19.66% in the Company, and is a connected person of the Company for the purpose of the GEM Listing Rules. Accordingly, the Transactions constitute continuing connected transactions for the Company under the GEM Listing Rules.

#### **c. ANNUAL CAP**

The Company and Shanghai Pharmaceutical estimated that the annual caps under the Transactions for the three years ended 31 December 2009 are approximately RMB8,000,000, RMB20,000,000 and RMB40,000,000. There has been no previous transaction of a similar nature between the Company and Shanghai Pharmaceutical. The annual caps under the Transactions are determined based on the parties' estimates on the market conditions in Shanghai. The parties estimated that the total sales amount in 2007 under the Sales and Distribution Agreement will be RMB8,000,000 with reference to the estimated sales volume of only one pharmaceutical product and its selling price. The parties expected that the number of products to be sold will be increased to two and three in 2008 and 2009 respectively and that there will be a gradual increase in the sales volume of each of the products of the Company due the promotional activities to be carried out by the Company and the increase in the market recognition of the products.

#### **d. FINANCIAL EFFECT OF THE TRANSACTIONS**

The Company expected that the Sales and Distribution Agreement will have positive effect on the Company's revenue.

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## LETTER FROM THE BOARD

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### e. *REASONS AND BENEFIT OF THE TRANSACTIONS*

The Company entered into the Transactions because it would like to leverage the established and extensive sales network of Shanghai Pharmaceutical. The terms of the Transactions 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. The Directors (including the independent non-executive Directors) are of the view that the terms of the Transactions and the annual caps thereof are fair and reasonable and in the interest of the Shareholders as a whole.

The Sales and Distribution Agreement will be effective from the date of signing of the agreement by the respective parties and upon the approval by the Independent Shareholders.

## 4. INFORMATION ON THE PARTIES

### a. *INFORMATION ON THE GROUP*

The Group is a R&D company that is principally engaged in the R&D of new drugs and related technologies. It is undergoing a gradual process of turning its R&D results into marketable pharmaceutical products. As such, the Group has recently hired some production and quality control staff and sales and marketing staff to develop and strengthen its production and sales capability.

### b. *INFORMATION ON TAIZHOU HUASHENG*

Taizhou Huasheng is principally engaged in the business of industry investment. It is a limited liability company incorporated in Taizhou, Jiangsu Province, the PRC on 28 February 2007 with a registered capital of RMB100,000,000.

### c. *INFORMATION ON TAIZHOU HUAYUAN*

Taizhou Huayuan is principally engaged in the business of external investment, development and operation of real estate, etc. It is a limited liability company incorporated in Taizhou, Jiangsu Province, the PRC on 20 March 2006 with a registered capital of RMB20,000,000.

### d. *INFORMATION ON TAIZHOU PHARMACEUTICAL*

Taizhou Pharmaceutical was incorporated on 13 March 2007 with a registered capital of RMB60,000,000 as a wholly-owned subsidiary of the Company. The registered capital of RMB60,000,000 was contributed by the Company as to RMB40,000,000 by intangible assets and as to RMB20,000,000 by cash. Taizhou Pharmaceutical will be engaged in the business of R&D, production and sales of drugs and medical equipment and related technologies. It will set up its own production lines by stages according to the Company's process of product development and will gradually develop into a full-functional production and manufacturing base of the Company with a number of production lines. The net book value of Taizhou Pharmaceutical as at its date of incorporation was approximately RMB60,000,000. The Directors confirm that Taizhou Pharmaceutical has not generated any profit or loss since its incorporation on 13 March 2007.

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## LETTER FROM THE BOARD

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### e. *INFORMATION ON SHANGHAI PHARMACEUTICAL*

Shanghai Pharmaceutical is a joint stock limited company established in the PRC, the A shares of which are listed on the Shanghai Stock Exchange. It is principally engaged in the trading of pharmaceutical products. Shanghai Pharmaceutical has established an extensive sales network in the hospitals and drugstores in various regions of the PRC, particularly in Shanghai.

### 5. GEM LISTING RULES IMPLICATIONS

#### a. *DISCLOSEABLE TRANSACTION — CAPITAL INCREASE IN TAIZHOU PHARMACEUTICAL*

As the relevant applicable percentage ratios set out in Rule 19.07 of the GEM Listing Rules in respect of the consideration payable under the Capital Increase Agreement are, more than 5% but less than 25%, the transaction contemplated under the Capital Increase Agreement is classified as a discloseable transaction under Rule 19.08 of the GEM Listing Rules.

In addition, since Taizhou Pharmaceutical is a major subsidiary of the Company and the transaction contemplated under the Capital Increase Agreement will lead to material dilution in the percentage equity interest of the Company in Taizhou Pharmaceutical, the transaction is subject to the approval of the Shareholders pursuant to Rule 17.39(2) of the GEM Listing Rules. No Shareholder is required to abstain from voting at the EGM on the resolution for the approval of the transaction under the Capital Increase Agreement under the GEM Listing Rules.

#### b. *CONTINUING CONNECTED TRANSACTIONS — SALES AND DISTRIBUTION AGREEMENT WITH SHANGHAI PHARMACEUTICAL*

Given that each of the applicable percentage ratios (other than the profit and equity capital ratios) in respect of the annual caps of the Transactions in accordance with Rule 19.07 of the GEM Listing Rules exceeds 2.5%, the Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under the GEM Listing Rules. As required by the GEM Listing Rules, the following persons will not vote at the EGM in favour of the resolution for approving the Transactions:

- (a) any connected person with a material interest in the Transactions; and
- (b) any Shareholder with a material interest in the Transactions and its associates.

Shanghai Pharmaceutical and its associates are required to abstain from voting on the resolution for approving the Transactions.

The Directors have appointed the Independent Board Committee, comprising three independent non-executive Directors, to advise the Independent Shareholders as to the fairness and reasonableness of the Transactions. Mega Capital, an independent financial adviser, has also been appointed to advise the Independent Board Committee and Independent Shareholders in relation to the Transactions.

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## LETTER FROM THE BOARD

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### 6. EGM

The Company will convene the EGM for considering and, if thought fit, passing the resolutions for the approval of (i) the transaction under the Capital Increase Agreement; and (ii) the Transactions. No shareholder is required to abstain from voting on the resolution for the approval of the transaction under the Capital Increase Agreement. However, as required by the GEM Listing Rules, the vote taken at the EGM to seek approval of the Transactions and their annual caps must be taken by poll. Shanghai Pharmaceutical and its associates are required to abstain from voting on the resolution for approving the Transactions.

A proxy form for use at the EGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon as soon as possible to the Company's H share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 46/F Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjourned meeting should you so desire.

### 7. RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that the terms of the Capital Increase Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that the Shareholders should vote in favour of the ordinary resolution to approve the transaction under the Capital Increase Agreement.

The Directors are of the view that the terms of the Transactions are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

The Independent Board Committee, having considered the information contained in this letter and taking into the account of the advice of Mega Capital, has come to the view that the Transactions are fair and reasonable. Accordingly, the Independent Board Committee recommends that the Independent Shareholders should vote in favour of the ordinary resolution to approve the Transactions at the EGM.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 13 to 14 of this circular and the letter of advice from Mega Capital to the Independent Board Committee and the Independent Shareholders set out on pages 15 to 22 of this circular.

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## LETTER FROM THE BOARD

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### 8. ADDITIONAL INFORMATION

Your attention is also drawn to the general information set out in the appendix to this circular.

Yours faithfully,  
For and on behalf of the Board  
**Wang Hai Bo**  
*Chairman*



上海復旦張江生物醫藥股份有限公司  
**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.\***

*(a joint stock limited company incorporated in the People's Republic of China)*

(Stock code: 8231)

15 May 2007

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS —  
SALES AND DISTRIBUTION AGREEMENT WITH  
SHANGHAI PHARMACEUTICAL**

We refer to the circular dated 15 May 2007 issued by the Company (the “Circular”), of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used herein, unless the context requires otherwise.

We have been appointed as the Independent Board Committee to advise you as to whether the terms of the Sales and Distribution Agreement, details of which are sent out in the letter from the Board, are fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, we have appointed Mega Capital as the independent financial adviser to advise us and the Independent Shareholders in respect of the Transactions.

We wish to draw your attention to the letter from the Board on pages 4 to 12 of the Circular, which sets out information in connection with the Transactions. We also wish to draw your attention to the letter of advice from Mega Capital to the Independent Board Committee and Independent Shareholders which contains its advice to us in respect of the Transactions as set out on pages 15 to 22 of the Circular.

\* For identification purpose only



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the information contained in the letter from the Board and taking into account the advice and recommendation of Mega Capital, we consider that the terms of Sales and Distribution Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders should vote in favour of the ordinary resolution to approve the Transactions and the relevant annual caps at the EGM.

Yours faithfully,

For and on behalf of

Independent Board Committee

**Pan Fei**, *Independent non-executive Director*

**Cheng Lin**, *Independent non-executive Director*

**Weng De Zhang**, *Independent non-executive Director*

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## LETTER OF ADVICE FROM MEGA CAPITAL

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*The following is the full text of the letter of advice from Mega Capital to the Independent Board Committee and the Independent Shareholders dated 15 May 2007 for incorporation in this circular.*



Units 2213-14, 22/F., Cosco Tower  
183 Queen's Road Central, Hong Kong

15 May 2007

To the Independent Board Committee and the Independent Shareholders of  
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

Dear Sir,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Sales and Distribution Agreement and the annual cap amounts stipulated therein, details of which, among other things, are set out in the "Letter from the Board" of this circular. Capitalised terms used in this letter shall have the same meanings ascribed to them in this circular unless the context otherwise requires. We recommend the Independent Board Committee to advise the Independent Shareholders to read this circular carefully before they decide to vote for or against the Sales and Distribution Agreement.

On 25 April 2007, the Company and Shanghai Pharmaceutical, a promoter and substantial shareholder of the Company, entered into the Sales and Distribution Agreement, pursuant to which the Company has agreed to authorise Shanghai Pharmaceutical to sell and distribute the pharmaceutical products of the Company, on a non-exclusive basis, within Shanghai during the Contractual Period. As at the Latest Practicable Date, Shanghai Pharmaceutical held approximately 19.66% equity interest in the Company. Therefore, Shanghai Pharmaceutical is a connected person of the Company for the purpose of the GEM Listing Rules. Accordingly, the Transactions constitute continuing connected transactions for the Company under the GEM Listing Rules. Given that each of the applicable percentage ratios (other than the profit and equity capital ratios) in respect of the annual caps of the Transactions in accordance with Rule 19.07 of the GEM Listing Rules exceeds 2.5%, the Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under the GEM Listing Rules. Shanghai Pharmaceutical and its associates are required to abstain from voting in favour of the resolution for approving the Transactions.

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## LETTER OF ADVICE FROM MEGA CAPITAL

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The Independent Board Committee, comprising all the independent non-executive Directors namely Mr. Pan Fei, Mr. Cheng Lin and Mr. Weng De Zhang, has been established to advise the Independent Shareholders on the terms of the Sales and Distribution Agreement contemplating the Transactions and the annual caps. Mega Capital has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the terms of the Sales and Distribution Agreement.

In formulating our opinion and advice, we have relied upon the accuracy of the information and facts contained or referred to in this circular as well as the representations made or provided by the Directors and senior management of the Company. The Directors have declared in a responsibility statement set out in the appendix headed “General Information” to this circular that they jointly and severally accept full responsibility for the accuracy of the information contained and representations made in this circular. We have assumed that all statements and representations made or referred to in this circular were true at the time they were made and continue to be true as at the date of EGM. We have also assumed that all statements of belief, opinion and intention made by the Company, the Directors and the management of the Company in this circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, the Directors and management of the Company and have no reason to doubt that any relevant material facts have been withheld or omitted.

We have reviewed the published information of the Group, including but not limited to, the announcement of the Company dated 27 April 2007 relating to the Transactions and the annual report of the Company for the year ended 31 December 2006 (“2006 Company’s Annual Report”). We have also reviewed the annual report of Shanghai Pharmaceutical for the year ended 31 December 2006 (“2006 Shanghai Pharmaceutical’s Annual Report”). In addition, we have discussed with the management of the Company on the background of and reasons for entering into the Sales and Distribution Agreement, the price determination basis of pharmaceutical products to be sold under the Sales and Distribution Agreement, the basis of setting the annual cap amounts and the management’s outlook on the pharmaceutical industry in the PRC, including the information and representations contained in this circular. We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in this letter and to provide a reasonable basis for our opinion. We have not, however, conducted an independent investigation into the business affairs, financial position or future prospects of the Group nor have we carried out any independent verification of the information supplied.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

The principal factors and reasons we have taken into account in assessing the terms of the Sales and Distribution Agreement and in giving our recommendation to the Independent Board Committee and the Independent Shareholders are set out below:

#### **Background of and reasons for entering into the Transactions**

The Group is principally engaged in R&D and selling of self-developed bio-pharmaceutical know-how, carrying out contracted research for customers, manufacturing and selling of diagnostic reagents and provision of related ancillary services. Since its establishment, the Group has been

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## LETTER OF ADVICE FROM MEGA CAPITAL

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focusing its research efforts on the development of new bio-pharmaceutical drugs. After years of development, a new pharmaceutical product, namely aminolevulinic acid (“ALA”) for the treatment of condyloma acuminata, a kind of prevalent sexually-transmitted diseases (“STDs”), has been developed. As advised by the Directors, ALA has passed all required research and clinical phases and obtained all necessary approvals and certificates including, among others, Certificate of New Drug (新藥證書), Approval for Registration of New Drug (藥品註冊批件) and Certificate of Good Manufacturing Practices for Pharmaceutical Products (藥品GMP證書) prior to the commencement of mass production. As noted in the 2006 Company’s Annual Report, the Group has also been developing a number of new pharmaceutical products for the treatment of intractable dermatitis, mycotic infection and tumors. The Group is in the course of applying necessary certificates and permits for commencement of mass production of those developing products. Among those products, two of which are expected to obtain their necessary certificates and permits in 2008 and 2009, respectively. As stated in the 2006 Company’s Annual Report, the Group is now undergoing the process of conversion from purely R&D of bio-pharmaceutical drug to a combination of R&D and commercialization of its research results. By establishing its marketing function, the Group will soon have complete functions through organic combination of the R&D, product manufacture and marketing functions which would enable the Group to progress to a better development stage. With an aim to pursue a long-term stable source of income, the Group has endeavored to implement the commercialization of its self-developed pharmaceutical products. The Directors expect that the income to be generated from the sales of self-developed pharmaceutical products would become a substantial income source in the future.

Shanghai Pharmaceutical is a joint stock limited company incorporated in the PRC and the A shares of which have been listed on the Shanghai Stock Exchange since 1994. As at the Latest Practicable Date, Shanghai Pharmaceutical held approximately 19.66% of the equity interest of the Company. Shanghai Pharmaceutical and its subsidiaries (collectively, the “Shanghai Pharmaceutical Group”) is principally engaged in the trading of pharmaceutical products in the PRC. As stated in the 2006 Shanghai Pharmaceutical’s Annual Report, Shanghai Pharmaceutical Group recorded turnover and net profit of approximately RMB 11,410.3 million and RMB68.7 million respectively for the year ended 31 December 2006. The net asset value of Shanghai Pharmaceutical Group as at 31 December 2006 was approximately RMB1,728.4 million. As stated in the “Letter from the Board”, Shanghai Pharmaceutical has established an extensive sales network in the hospitals, clinics and drugstores in various regions of the PRC, particularly in Shanghai. According to the website of Shanghai Pharmaceutical, Shanghai Pharmaceutical Group has accumulated over 13 years of experience in the trading of pharmaceutical products business. Shanghai Pharmaceutical Group has distributed more than 6,000 different types of pharmaceutical products with over 4,000 domestic and overseas customers.

According to Measures on Registration Administration of Medicines 《藥品註冊管理辦法》 promulgated by State Food and Drug Administration (國家食品藥品監督管理局) (“SFDA”) dated 28 February 2005, each newly developed pharmaceutical product would be subject to a monitor period up to five years starting from the date of obtaining of the Certificate of New Drug (新藥證書) of such new pharmaceutical product (the “Monitor Period”) during which the SFDA will closely monitor the safety and efficacy of such new pharmaceutical product in order to protect public health. During the Monitor Period, no other manufacturer is allowed to manufacture the same product unless the pharmaceutical manufacturing enterprise which developed such product fails to commence mass production of such new pharmaceutical product within two years after obtaining the Certificate of

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## LETTER OF ADVICE FROM MEGA CAPITAL

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New Drug (新藥證書). In order to protect the Group's proprietary in its self-developed products and secure the long term revenue source of the Group, the Directors consider that it would be in the best interest of the Group to apply for patents for its newly developed pharmaceutical products. However, before such patents could be successfully applied, it would be of the Group's top priority to effectuate the market penetration of its self-developed products under its own brand as soon as possible in order to capture more market share. As advised by the Directors, it would be the Group's long-term development goal to have its own sales and distribution network established in order to gain direct access to the customers and expand its market coverage. However, it will cost the Group considerable time and resources to build its own sales and marketing team. In order to expedite the market penetration of its self-developed products in the pharmaceutical products market, the Directors consider it would be in the best interest of the Group to engage distributors with well established networks to market its products at the initial stage. Given Shanghai Pharmaceutical Group has built up enormous reputation among the pharmaceutical products market, the engagement of Shanghai Pharmaceutical would provide the Group with an instant available platform to distribute its products in the pharmaceutical market in the PRC.

In order to illustrate more information to the Shareholders regarding the industry in which the Group is engaged in, we conducted some researches on the pharmaceutical industry in the PRC. According to National Bureau of Statistics of China (中華人民共和國國家統計局), the sales revenue generated by large and medium size enterprises in the pharmaceutical industry for the year ended 2005 amounted to approximately RMB267.5 million, representing a compound annual growth rate ("CAGR") of approximately 20.0% from approximately RMB130.4 million for the year ended 2001. According to National Bureau of Statistics of China (中華人民共和國國家統計局), average per capita annual disposable income of urban residents in the PRC increased from approximately RMB6,860.0 in 2001 to approximately RMB10,493.0 as recorded in 2005, representing a CAGR of approximately 12.0%. Meanwhile, percentage of spending on medicines and medical services to household expenditure increased from approximately 6.5 % in 2001 to approximately 7.6% in 2005. Furthermore, it is one of the items stipulated under the China's Eleventh Five Year Plan (2006 to 2010) to promote the prevention and control of major diseases such as AIDS, tuberculosis, snail fever and pathogenic avian influenza. According to 《中國醫學論壇報》第 977 期 (977th edition of China Medicine Forum Newspaper), World Health Organisation estimated that the number of STDs reported in the PRC in a year was ranged from 16 million to 20 million, out of which approximately three million to six million were reported as condyloma acuminata. As extracted from an article posted on People's Daily Online dated 13 August 2006, the number of STDs diagnosed in China is on the rise and the provinces or regions with the highest reported cases of STDs are Guangdong, Zhejiang, Jiangsu, Shanghai and Jiangxi in the PRC. It is noted from the above statistics that there is a general consensus of a positive outlook on the pharmaceutical industry and the awareness of health of general public has been increasing in the PRC.

Having considered the imminent need of the Group to penetrate its products to capture the market share in order to obtain first-mover advantage within the Monitor Period, the merits of utilizing the sales and distribution network of the Shanghai Pharmaceutical Group and the general consensus on the positive outlook of the pharmaceutical industry in the PRC, we consider that it is commercially justifiable for the Group to enter into the Sales and Distribution Agreement.

## Principal terms of the Sales and Distribution Agreement

### *Term and termination*

Pursuant to the Sales and Distribution Agreement, the sales and distribution services to be provided to the Company is on a non-exclusive basis with the terms of sales and distribution of each specific pharmaceutical products to be agreed in accordance with the principles as set out in the Sales and Distribution Agreement. The Sales and Distribution Agreement shall be effective from the date of signing of the agreement (i.e. 25 April 2007) up to 31 December 2009, subject to the satisfaction of all conditions precedent. Upon expiry, subject to compliance with the GEM Listing Rules, the Sales and Distribution Agreement shall be renewable by agreement between the parties thereto. Either Party is entitled to give the other party prior written notice to terminate the Sales and Distribution Agreement. We note that the three-year term of the Sales and Distribution Agreement is in compliance with the requirement of the GEM Listing Rules.

### *Pricing and payment*

#### (i) *Pricing*

As noted from the “Letter from the Board”, the general pricing principle of the pharmaceutical products to be sold under the Sales and Distribution Agreement was agreed and determined by the parties with reference to the statutory selling price of a particular product and the provision of a reasonable profit margin to Shanghai Pharmaceutical (the “Pricing Principle”). The selling price of the products of the Company to be sold under the Sales and Distribution Agreement shall be similar to that available to an Independent Third Party. The actual price may, subject to mutual agreement between the Company and Shanghai Pharmaceutical, be adjusted from time to time based on the actual sales volume of the product, the quality of sales services provided by Shanghai Pharmaceutical and the share of promotion cost between both parties (collectively, the “Price Adjustment Mechanism”). In addition, the Directors also advised that the Group has formulated an incentive policy (the “Incentive Policy”) under which the Group would offer to distributors with incentive cash bonus which would be determined with reference to the volume of orders placed and the length of settlement time.

In order to assess whether the price of pharmaceutical product offered to Shanghai Pharmaceutical is similar to that available to Independent Third Parties, we have reviewed and compared the price charged by the Group to Shanghai Pharmaceutical under the annual sales contract of ALA signed between the Company and Shanghai Pharmaceutical (the “Sales Contract”) with other sales contracts entered into between the Company and Independent Third Parties for distributing the same product (the “Third Parties’ Contracts”). Upon comparison, we noted that the prices stipulated under the Sales Contract and the Third Parties’ Contracts are determined in accordance with the Pricing Principle, the Price Adjustment Mechanism and the Incentive Policy and the selling price charged to Shanghai Pharmaceutical is comparable to those charged to the Independent Third Parties.

#### (ii) *Payment*

No payment terms is mentioned under the Sales and Distribution Agreement. Pursuant to the Sales Contract, the invoiced amount of ALA to be sold to Shanghai Pharmaceutical shall be settled

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within 30 days from the day of delivery of products. We have reviewed the payment terms of the Third Parties' Contracts in respect of ALA and noted that the payment terms are ranging from 30 days to 45 days. The payment term under the Sales Contract is equal to the lower end of the range of payment terms stipulated under Third Parties' Contracts.

### *Annual cap*

As stated in the "Letter from the Board", given there has been no previous transaction of similar nature between the Company and Shanghai Pharmaceutical, the annual caps for the three years ending 31 December 2009 of approximately RMB8,000,000, RMB20,000,000 and RMB40,000,000 under the Sales and Distribution Agreement were determined by the parties based on the estimates on the market conditions in Shanghai. The parties estimated that the total sales amount in 2007 under the Sales and Distribution Agreement will be RMB8,000,000 with reference to the estimated sales volume of ALA and its selling price. The parties expected that the number of pharmaceutical products to be sold will be increased to two and three in 2008 and 2009 respectively and that there will be a gradual increase in the sales volume of each of the products of the Company due to the promotional activities to be carried out by the Company and the increase in the market recognition of the products. Upon enquiry, we were advised by the Directors that the price of each of the pharmaceutical products charged or to be charged to Shanghai Pharmaceutical for the three years ending 31 December 2009 is assumed to remain stable throughout the period given that the price of pharmaceutical product is strictly governed by the price administration authorities at State or provincial levels. Accordingly, the estimated quantity of the pharmaceutical products to be sold to Shanghai Pharmaceutical would be the instrumental factor affecting the annual cap amounts for the three years ending 31 December 2009.

As advised by the Directors, the annual cap amount for the year of 2007 is determined after taken into account the minimum sales value of ALA for the year of RMB6.0 million committed by Shanghai Pharmaceutical as stipulated under the Sales Contract and the buffer for unanticipated increase in demand for the Group's product by Shanghai Pharmaceutical for the same year. In assessing the annual cap amounts for the two years ending 31 December 2009, we noted that the cap amounts for each of 2008 and 2009 represent at a growth rate of approximately 150% and 100% respectively from the previous year on a year to year basis. Upon enquiry, we were given to understand that the Directors have determined the cap amounts after taken into account a number of factors including, among others, the new pharmaceutical products to be launched in 2008 and 2009, the increase in demand for the pharmaceutical products of the Group as a result of the promotional activities to be carried out by the Group and the positive outlook of pharmaceutical industry in the PRC.

Based on (i) the expected increase in number of new pharmaceutical products to be launched during the term of the Sales and Distribution Agreement; (ii) the expected increase in demand for the pharmaceutical products of the Group as a result of the promotional activities to be carried out by the Group and expected increase in the market recognition of its products; (iii) the general market consensus of a positive business outlook of pharmaceutical industry in the PRC, we consider that the cap amounts stipulated under the Sales and Distribution Agreement for the three years ending 31 December 2009 were determined after due and careful consideration by the Directors and the basis of determination of the cap amounts is fair and reasonable so far as the Company and the Shareholders are concerned.

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## *Conditions*

Pursuant to the GEM Listing Rules, the Company will seek the approval by the Independent Shareholders for the Sales and Distribution Agreement (including annual caps) for the three years ending 31 December 2009 subject to following conditions:

1. The Transactions will be:
  - (a) entered into in the ordinary and usual course of the business of the Group;
  - (b) conducted on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available from Independent Third Parties; and
  - (c) entered into in accordance with the terms of the Sales and Distribution Agreement that are fair and reasonable and in the interests of the Shareholders as a whole;
2. The aggregate amount of the sales under the Sales and Distribution Agreement for each of the three years ending 31 December 2009 shall not exceed RMB8,000,000 million, RMB20,000,000 million and RMB40,000,000; and
3. The Company will comply with all other relevant requirements under the GEM Listing Rules.

Taking into account of the conditions attached to the Transactions, in particular (i) the restriction by way of setting the annual caps; and (ii) the compliance with all other requirements under the GEM Listing Rules (which include the annual review and/or confirmation by the independent non-executive Directors and auditors of the Company on the actual execution of the Transactions pursuant to the Rule 20.37 and 20.38 of the GEM Listing Rules), we consider that the Company has taken appropriate measures to govern the Company in carrying out the Transactions, thereby safeguarding the interests of the Shareholders thereunder. In particular, we note that the Transactions are, by virtue of the requirements of Rule 20.37 of the GEM Listing Rules, conditional upon being carried by the Company in the ordinary and usual course of its business, on normal commercial terms, fair and reasonable and in the interests of the Shareholders as a whole.

## **RECOMMENDATION**

Having considered the above factors, in particular,

- (i) the background of and reasons for carrying out the Transactions;
- (ii) the prices stipulated under the Sales Contract and the Third Parties' Contracts are determined in accordance with the Pricing Principle, Price Adjustment Mechanism and the Incentive Policy and the selling price charged to Shanghai Pharmaceutical is comparable to those charged to the Independent Third Parties;



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- (iii) the cap amounts stipulated under the Sales and Distribution Agreement for the three years ending 31 December 2009 was determined after due and careful consideration by the Directors and the basis of determination of the cap amounts is fair and reasonable so far as the Company and the Shareholders are concerned;
- (iv) the conditions attached to carrying out the Transactions as a mechanism to protect the interest of the Independent Shareholders,

we consider that the Transactions are in the interest of the Company and the Shareholders as a whole and the terms thereof as well as the cap amounts are fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to approve the Transactions.

Yours faithfully,

For and on behalf of

**Mega Capital (Asia) Company Limited**

**Terence Hong**

**Alfred Wong**

*Managing Director*

*Executive Director*

## 1. RESPONSIBILITY STATEMENTS

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading; there are no other matters the omission of which would make any statement herein misleading, and all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

## 2. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

## 3. DISCLOSURE OF INTERESTS

### (a) Directors', chief executive's and supervisors' interest in shares of the Company

Save as disclosed below, as at the Latest Practicable Date, none of the Directors, supervisors and chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which should be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or which they are deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company pursuant to Rules 5.46 to 5.47 of the GEM Listing Rules.

Name of Director	Class of shares	Number of Domestic Shares held	Capacity	Type of interest	Percentage holding in total number of Domestic Shares (%)	Percentage holding in total share capital of the Company (%)
Wang Hai Bo	Domestic Shares	51,886,430 (L)	Beneficial owner	Personal	10.13	7.31
Su Yong	Domestic Shares	18,312,860 (L)	Beneficial owner	Personal	3.58	2.58
Zhao Da Jun	Domestic Shares	15,260,710 (L)	Beneficial owner	Personal	2.98	2.15
Fang Jing	Domestic Shares	5,654,600 (L)	Beneficial owner	Personal	1.10	0.80

*Note:* The letter "L" stands for long position.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or supervisors or chief executives of the Company or their respective associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations

(within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Rules 5.46 to 5.47 of the GEM Listing Rules.

**(b) Interest or short position of entities (other than a Director or chief executive of the Company) in the Shares which is discloseable under Divisions 2 and 3 of the SFO**

So far as to the knowledge of the Directors, as at the Latest Practicable Date, the following Shareholders (other than the Directors, supervisors or chief executives of the Company) had interests and short positions in the shares or underlying shares of the Company which should be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

Name of Shareholders	Class of shares	Number of Shares held	Capacity	Type of interest	Percentage in the respective class of share capital (%)	Percentage in total share capital (%)
Shanghai Pharmaceutical (Group) Corporation	Domestic Shares	139,378,560 (L)	Interest of controlled corporation	Corporate	27.26	19.66
Shanghai Pharmaceutical	Domestic Shares	139,378,560 (L)	Beneficial owner	Corporate	27.26	19.66
China General Technology (Group) Holding, Limited	Domestic Shares	130,977,816 (L)	Beneficial owner	Corporate	25.58	18.45
Shanghai Zhangjiang (Group) Co. Ltd.	Domestic Shares	105,915,096 (L)	Interest of controlled corporation	Corporate	20.69	14.92
Shanghai Zhangjiang Hi-Tech Park Development Corp.	Domestic Shares	105,915,096 (L)	Beneficial owner	Corporate	20.69	14.92
Fudan University	Domestic Shares	30,636,286 (L)	Beneficial owner	Corporate	5.98	4.31
Shanghai Industrial Investment (Holdings) Co. Ltd.	H Shares	70,564,000 (L)	Interest of controlled corporation	Corporate	35.64	9.94
S.I. Pharmaceutical Holdings Ltd.	H Shares	65,856,000 (L)	Beneficial owner	Corporate	33.26	9.28
SIIC Medical Science and Technology (Group) Limited	H Shares	4,708,000 (L)	Beneficial owner	Corporate	2.38	0.66

Notes: The letter "L" stands for long position

#### 4. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors were aware that none of the Directors, management shareholder or their respective associates is considered by the Company to have interests in business which compete with, or might compete with, either directly or indirectly, with the business of the Group, other than those business in which such directors have been appointed to represent the interests of the Company and/or other members of the Group.

#### 5. DIRECTORS' INTEREST IN SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the relevant member of the Group within one year without payment of any compensation (other than statutory compensation).

#### 6. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF SIGNIFICANCE

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2006, the date of which the latest published audited consolidated financial statements of the Group were made up.

No contract or arrangement in which a Director is materially interested and which is significant in relation to the business of the Group subsisted as at the Latest Practicable Date.

#### 7. EXPERT'S QUALIFICATION AND CONSENT

- (a) The following is the qualifications of the expert who has given its opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Mega Capital (Asia) Company Limited	a licensed corporation to carry on types 1 and 6 regulated activities under the SFO

- (b) As at the Latest Practicable Date, the expert mentioned in paragraph (a) above did not have any shareholding in the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Group.
- (c) The expert has on 15 May 2007 given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and opinion dated 15 May 2007 and reference to its name in the form and context in which they appear.
- (d) The letter and recommendation given by Mega Capital are given as of the date of this circular for incorporation herein.

- (e) The expert has no direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## 8. THE AUDIT COMMITTEE OF THE COMPANY

The Audit Committee is responsible for reviewing the financial reporting, internal controls and corporate governance issues and making relevant recommendations to the Board. All the members of the Audit Committee are independent non-executive Directors, namely Mr. Pan Fei, Mr. Weng De Zhang and Mr. Cheng Lin. Mr. Pan Fei was appointed as the chairman of the Audit Committee.

**Pan Fei**, aged 51, is a professor at Shanghai University of Finance and Economics (上海財經大學). He graduated from Shanghai University of Finance and Economics with a doctorate degree in Accounting. He is an associate member of the American Lecture of Certified Public Accountants. He has published numerous articles in various financial and economics publications in the PRC and has got several awards. He was appointed as an independent non-executive Director in June 2003.

**Cheng Lin**, aged 44, is an associate professor in Shanghai University of Finance and Economics. Mr. Cheng holds doctorate degree in economics from Shanghai University of Finance and Economics (上海財經大學). He has published numerous articles in various financial and economics publications in the PRC. Mr. Cheng was appointed as an independent non-executive Director in July 2002.

**Weng De Zhang**, aged 44, is the President of a Sub-branch of Industrial Bank Co., Ltd. He graduated from Remin University of China (中國人民大學) and obtained a master's degree in business administration from Asia International Open University (Macau). He was the Chief accountant of the Planning and Finance division of the Shanghai Electricity College. Later, he became an assistant director of audit and the financial controller of the Shanghai Electricity Hi-Tech United Company. He was appointed as an independent non-executive Director in June 2003.

## 9. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

The articles of association of the Company provides that a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands) a poll is demanded:

- (a) by the chairman of such meeting; or

- (b) by at least two Shareholders present in person or its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Shareholder or Shareholders present in person or by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting,

before or after a vote is carried out by a show of hands.

The demand for a poll may be withdrawn by the person who demands the same.

## 10. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claim of material importance and, so far as the Directors were aware, no litigation or claims of material importance are pending or threatened by or against any member of the Group.

## 11. GENERAL

- (a) The registered office of the Company is situated at 308 Cailun Road, Zhangjiang HI-Tech Park, Pudong Shanghai 201203, PRC.
- (b) The principal address of the Company in Hong Kong is 15/F, The bank of East Asia Building, 10 Des Voeux Road Central, Hong Kong.
- (c) The Company's H share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited of 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) Mr. Zhao Da Jun is the compliance officer of the Company. He graduated from Fudan University with a master's degree in Biology. He also holds a master's degree in Business Administration from the University of Hong Kong.
- (e) Ms. Wang Rui is the qualified accountant, company secretary and an authorized representative of the Company. She is a member of The Association for Chartered Certified Accountants.
- (f) The English text of this circular shall prevail over the Chinese text.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection at the Company's principal place of business in Hong Kong at 15/F, The Bank of East Asia Building, 10 Des Voeux Road Central, Hong Kong during normal business hours on any weekday (except for public holidays) up to and including 30 May 2007:

- (a) the Capital Increase Agreement;
- (b) the Sales and Distribution Agreement;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 13 to 14 of this circular;
- (d) the letter of advice issued by Mega Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 15 to 22 of this circular; and
- (e) the written consent of Mega Capital referred to in paragraph 7(c) above.



上海復旦張江生物醫藥股份有限公司  
**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.\***  
*(a joint stock limited company incorporated in the People's Republic of China)*  
(Stock code: 8231)

**NOTICE IS HEREBY GIVEN** that a Extraordinary General Meeting (“EGM”) of 上海復旦張江生物醫藥股份有限公司 Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.\* (the “Company”) will be held at 2nd Floor, No. 308 Cailun Road, Zhangjiang Hi-teck Park, Pudong, Shanghai, the PRC on Firday, 6 July 2007 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an Ordinary Resolution:

**“THAT**

- (a) the entering into of the capital increase agreement dated 16 April 2007, a copy of which has been produced to the EGM for the purpose of identification, among the Company, 泰州華盛投資開發有限公司 Taizhou Huasheng Investment Development Company Limited\* (“Taizhou Huasheng”) and 泰州醫藥科技園華源投資發展有限公司 Taizhou Pharmaceutical Science Park Huayuan Investment Development Company Limited\* (“Taizhou Huayuan”), whereby Taizhou Huasheng and Taizhou Huayuan agreed to subscribe the registered capital of RMB5,000,000 and RMB1,000,000 of 泰州復旦張江藥業有限公司 Taizhou Fudan-Zhangjiang Pharmaceutical Company Limited\* respectively, and the transactions contemplated thereto be and are hereby approved and **THAT** the directors of the Company be and are hereby authorized to do, approve and transact all such acts and things as they may in their discretion consider necessary or desirable in connection therewith; and
- (b) the entering into of an annual sales and distribution Agreement dated 25 April 2007, a copy of which has been produced to the EGM for the purpose of identification, between the Company and Shanghai Pharmaceutical, a promoter and substantial shareholder of the Company, whereby the Company has agreed to authorise Shanghai Pharmaceutical to sell and distribute the pharmaceutical products of the Company within Shanghai, and the annual caps and the transactions contemplated thereto be and are hereby approved and **THAT** the directors of the Company be and are hereby authorized to do, approve and transact all such acts and things as they may in their discretion consider necessary or desirable in connection therewith.

By order of the Board  
**Wang Hai Bo**  
*Chairman*

Shanghai, PRC, 15 May 2007

\* For identification purpose only



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## NOTICE OF EGM

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### Notes:

1. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint a proxy to attend and to vote in his stead. A proxy need not be a shareholder of the Company.
2. Where there are joint holders of any share in the issued share capital of the Company (“Share”), any one of such persons may vote at the meeting, either personally or by proxy, in respect of such Share as if he/she/it were solely entitled thereto; but if more than one of such joint holders be present at the meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of such joint holding.
3. In order to be valid, the proxy form, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney must be deposited with the Company’s branch share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited of 46th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting as the case may be or, in the case of poll taken subsequently to the date of the meeting or adjourned meeting, not less than 24 hours before the time appointed for the taking of the poll.
4. The Ordinary Resolution (b) as set out above is required to be determined by way of poll under the Rules Governing the Listing of the Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.
5. Any shareholder of the Company entitled to attend the EGM are requested to complete and deliver the reply slip for attendance to the H Share Registrar of the Company’s office in Shanghai before 16 June 2007.