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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)

**(1) CONTINUING CONNECTED TRANSACTIONS -
SALES AND DISTRIBUTION AGREEMENT WITH SHANGHAI
PHARMACEUTICAL DISTRIBUTION
AND
(2) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION**

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



A letter from the Board is set out on pages 4 to 11 of this circular. A letter from the Independent Board Committee is set out on pages 12 to 13 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 14 to 24 of this circular.

A notice convening the EGM to be held at No. 308, Cailun Road, Zhangjiang Hi-Tech Park, Pudong New Area, Shanghai, China, on Friday, 29 October 2010 at 10:00 a.m. is set out on pages 32 to 34 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, Shops 1712-1716 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 24 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.

10 September 2010

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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.

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DEFINITIONS

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

“Articles of Association”	means the articles of association of the Company
“associate”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	means the board of directors
“Company”	means 上海復旦張江生物醫藥股份有限公司 Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.*, a joint stock limited company incorporated in the PRC, whose H shares are listed on the GEM
“connected person”	has the meaning ascribed to it under the GEM Listing Rules
“Contractual Period”	means the period from 10 August 2010 to 31 December 2012 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 the extraordinary general meeting of the Company to be held at No. 308 Cailun Road, Zhangjiang Hi-Tech Park, Pudong New Area, Shanghai, China on Friday, 29 October 2010 at 10:00 a.m., to consider and approve the continuing connected transactions contemplated under the Sales and Distribution Agreement and the proposed amendment to the Articles of Association
“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
“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

DEFINITIONS

“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”	7 September 2010, the latest practicable date prior to the printing of this circular for 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
“Parties”	means the Company and Shanghai Pharmaceutical Distribution
“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 Distribution on 10 August 2010 for the sale and distribution of the Company’s pharmaceutical products within Shanghai area during the Contractual Period
“SFDA”	means the State Food and Drug Administration of the PRC
“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.*, which is renamed as 上海醫藥集團股份有限公司 Shanghai Pharmaceutical Holding Co., Ltd.*, a joint stock limited company incorporated in the PRC whose A shares are listed on the Shanghai Stock Exchange and a promoter and substantial shareholder of the Company

DEFINITIONS

“Shanghai Pharmaceutical Distribution”	means 上海醫藥分銷控股有限公司 Shanghai Pharmaceutical Distribution Co., Ltd.*, a newly-established limited liability company incorporated in the PRC on 26 April 2010 and a wholly-owned subsidiary of Shanghai Pharmaceutical
“Shareholders”	means holders of the shares of the Company
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“subsidiary”	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
“substantial shareholder”	has the meaning ascribed to it under the Rule 1.01 of the GEM Listing Rules
“Transactions”	means the continuing connected transactions between the Company and Shanghai Pharmaceutical Distribution under the Sales and Distribution Agreement entered into on 10 August 2010, the terms of which are substantially the same as the continuing connected transactions between the Company and Shanghai Pharmaceutical under the former Sales and Distribution Agreement entered into in 2007
“%”	per cent

* For identification purpose only

LETTER FROM THE BOARD



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:

Ms. Fang Jing
Mr. Zhou Jie
Mr. Guo Jun Yu
Mr. Hao Hong Quan
Mr. Zhu Ke Qin

Independent non-executive Directors:

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

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

No. 308, Cailun Road,
Zhangjiang Hi-Tech Park
China Pudong New Area, Shanghai, China
201210

*Principal place of business
in Hong Kong:*

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

10 September 2010

To the Shareholders,

Dear Sir/Madam

**(1) CONTINUING CONNECTED TRANSACTIONS -
SALES AND DISTRIBUTION AGREEMENT WITH SHANGHAI
PHARMACEUTICAL DISTRIBUTION
AND
(2) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION**

1. INTRODUCTION

At the forthcoming EGM, resolutions will be proposed to seek (i) the Independent Shareholders' approval for the Transactions; and (ii) the Shareholders' approval for the proposed amendments to the Articles of Association.

** For identification purpose only*

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (i) further details of the Transactions, including the advice of Mega Capital, the independent financial adviser, 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; (ii) the details of the proposed amendments to the Articles of Association; and (iii) a notice convening the EGM. This circular contains all information necessary to allow the Shareholders to make a properly informed decision.

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

On 10 August 2010, the Board announced that the Company and Shanghai Pharmaceutical Distribution, a newly-established and a wholly-owned subsidiary of Shanghai Pharmaceutical, entered into the Sales and Distribution Agreement on 10 August 2010, pursuant to which the Company has agreed to authorize Shanghai Pharmaceutical Distribution to sell and distribute the pharmaceutical products of the Company within the Shanghai area for the Contractual Period. As a result of the internal restructuring of Shanghai Pharmaceutical, Shanghai Pharmaceutical has newly established Shanghai Pharmaceutical Distribution as its wholly-owned subsidiary to engage in the trading and distribution of pharmaceutical products.

Prior to entering into the Sales and Distribution Agreement, the Company engaged Shanghai Pharmaceutical to sell and distribute its pharmaceutical products. The Sales and Distribution Agreement replaced the former sales and distribution agreement entered into between the Company and Shanghai Pharmaceutical in 2007. Shanghai Pharmaceutical is a substantial shareholder of the Company. The terms under the Sales and Distribution Agreement are substantially the same as the terms under the former sales and distribution agreement entered into with Shanghai Pharmaceutical in 2007. The former sales and distribution agreement expired on 31 December 2009 but was not renewed thereafter, pending for the reorganization of Shanghai Pharmaceutical. Shanghai Pharmaceutical Distribution was established on 26 April 2010.

(a) Details of Sales and Distribution Agreement

Date

10 August 2010

Parties

1. The Company; and
2. Shanghai Pharmaceutical Distribution, a newly-established and a wholly-owned subsidiary of Shanghai Pharmaceutical (which is a substantial shareholder of the Company)

LETTER FROM THE BOARD

Particulars

The sales and distribution services to be provided to the Company are on a non-exclusive basis with the terms of sales and distribution of each specific pharmaceutical product to be 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 Distribution for the sales and distribution services provided. The actual price may, subject to mutual agreement between the Company and Shanghai Pharmaceutical Distribution, be adjusted from time to time based on the actual sales volume of the product, the quality of sales services provided by Shanghai Pharmaceutical Distribution 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 an 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 substantial shareholder of the Company. It has a 19.66% equity interest in the Company as of the date of the Sales and Distribution Agreement. Shanghai Pharmaceutical Distribution is a newly-established and a wholly-owned subsidiary of Shanghai Pharmaceutical 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) Historical annual caps and actual transaction amounts from 2007 to 2009

Prior to the introduction of other new drugs/products in 2009 and 2010, the historical connected transaction amounts with Shanghai Pharmaceutical under the former Sales and Distribution Agreement were all in respect of the sales of ALA and the historical amounts for the three financial years ended 31 December 2009 were all derived from the sale of ALA by Shanghai Pharmaceutical in the Shanghai area. ALA, a kind of photodynamic drug for the treatment of Condyloma acuminata, was launched in the market in July 2007.

For the three years ending 31 December 2009, the annual caps under the historical transactions were RMB8,000,000, RMB20,000,000 and RMB40,000,000 while the actual transaction amounts were RMB723,000, RMB2,435,000 and RMB386,000 respectively. The substantial excess of the historical annual caps over the actual transaction amounts was attributable to the over-estimation of the market

LETTER FROM THE BOARD

performance for the sales of ALA, usage of which required to be complemented with medical equipments and complementary therapies. As a result, its market growth rate was lower than the rate originally estimated.

The historical amounts between the Company and Shanghai Pharmaceutical dropped significantly from RMB2,435,000 in year 2008 to RMB386,000 in year 2009 because the Company entered into a head distribution agreement with a nation-wide distributor in Jiangsu province for the whole of the PRC, including the Shanghai area. Since then, most of the sales of ALA were made through the head distributor and the transaction amounts for ALA with Shanghai Pharmaceutical dropped significantly in 2009.

The total national sales of ALA for the whole of China (including sales in the Shanghai area) for the three financial years ended 31 December 2009 were approximately RMB3.045 million (from July to December 2007), RMB15.42 million and RMB29.012 million, respectively, with the sales in 2009 representing an increase of several times compared with the initial sales in year of launch of ALA in 2007.

(d) Estimated annual caps for the three years ending 31 December 2012

In addition to ALA, there are two more drugs/products, namely Libod and Eyan, to be distributed by Shanghai Pharmaceutical Distribution in the Shanghai area under the Sales and Distribution Agreement for the next three financial years ending 31 December 2012. The Directors expect that during the next three financial years, at least one more new drug/pharmaceutical product will have obtained approval from SFDA, which will also be distributed by Shanghai Pharmaceutical Distribution under the Sales and Distribution Agreement.

The basic information of Libod and Eyan is as follows:

Libod

Libod, an anti-tumor drug, was launched in August 2009. The exclusive distributor for Libod for the whole of the PRC (other than the Shanghai area) from 2009 to 2014 is Nanjiang Medical Co., Ltd. (“Nanjiang Medical”). Pending the reorganization of Shanghai Pharmaceutical, the Company separately appointed another local distributor in Shanghai, which is not related to Shanghai Pharmaceutical or its group of companies, to be its distributor for Libod in the Shanghai area. The historical sales of Libod in the Shanghai area from January 2010 to 10 August 2010 was approximately RMB0.902 million.

Eyan

Eyan, a cosmetic product for treatment of acne, was launched in June 2010. Prior to the establishment of Shanghai Pharmaceutical Distribution, all sales of Eyan in the Shanghai area were made through Shanghai Pharmaceutical and the historical sales amount for the period from June 2010 to 10 August 2010 were less than RMB50,000.

LETTER FROM THE BOARD

The Board estimated that the proposed annual caps under the Transactions for the three years ending 31 December 2012 are approximately RMB13,000,000, RMB40,000,000 and RMB80,000,000, respectively. The annual cap for the financial year ending 31 December 2010 is estimated based on the following:

- (i) The proposed annual cap of RMB13 million is based on the estimated sales for the five-month period commencing from the execution of the Sale and Distribution Agreement on 10 August 2010 to 31 December 2010;
- (ii) The historical sales amount prior to the execution of the Sales and Distribution Agreement from the beginning of 2010 were small and insignificant. As stated above, the sales of Eyan before 10 August 2010 was less than RMB50,000 and have been taken into account by the Directors when preparing the estimate for the 2010 annual cap; and
- (iii) The Directors expect with the appointment of Shanghai Pharmaceutical Distribution as the distributor, which has a more effective and efficient sales and distribution channels in the Shanghai area, the sales of the three drugs/products will increase. The estimated sales of the three drugs/products for the five-month period from 10 August 2010 to the end of December 2010 are approximately RMB5 million to RMB6 million for ALA, RMB5 million to RMB6 million for Libod and RMB1 million to RMB2 million for Eyan, adding to a total of approximately RMB13 million.

The annual caps for the two years ending 31 December 2012 are estimated based on the following:

- (i) As the expected sales for the five months from 10 August 2010 to 31 December 2010 are estimated to be at RMB13 million, the annual cap of RMB40 million for the entire financial year ending 31 December 2011 represents a normal and anticipated growth of 25% to 30% in sales for the three drugs/products as compared with the estimated annual sales for 2010;
- (ii) The Directors anticipate that within 1 to 2 years after the launch of a new drug/products, and normally there would be a significant surge in sales if the new drug/product is well received by the market, as is evidenced by the several times growth in sales of ALA. Since Libod and Eyan would have been launched in the market for approximately two years by year 2012, the Directors therefore expect a significant growth in the sales in these two products for the year 2012;
- (iii) The Directors expect by year 2012, the Company would have at least one more new drug/pharmaceutical product obtaining the SFDA approval and launched in the market; and

LETTER FROM THE BOARD

- (iv) Based on the above, the Directors estimate the annual cap for the year ending 31 December 2012 at RMB80 million, as compared with the annual cap of RMB40 million for the year 2011.

There were sale and distribution transactions occurred between the Company and Shanghai Pharmaceutical for the first six months ended 30 June 2010 and the amount is less than RMB50,000. The low transaction volume is mainly due to the pending situation for the reorganization of Shanghai Pharmaceutical and the conversion process of the Company's sales strategy.

3. FINANCIAL EFFECT OF THE TRANSACTIONS

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

4. REASONS FOR AND BENEFIT OF THE TRANSACTIONS

The Company would continue the Transactions with Shanghai Pharmaceutical Distribution in order to leverage the established and extensive sales and distribution network of Shanghai Pharmaceutical Distribution. 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 Company and the Shareholders as a whole.

Upon the approval by the Independent Shareholders and the competent authorities, the effective date of the Sales and Distribution Agreement will be traced back to the date of signing of the agreement by the Parties.

5. INFORMATION ON THE PARTIES

(a) Information on the Group

The Group 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 hired some production and quality control staff and sales and marketing staff to develop and strengthen its production and sales capability.

(b) Information on Shanghai Pharmaceutical Distribution

As part of the reorganization of Shanghai Pharmaceutical, Shanghai Pharmaceutical Distribution is newly established by Shanghai Pharmaceutical on 26 April 2010 as its wholly-owned subsidiary to engage in the trading and distribution of pharmaceutical products. It has been established with an extensive sales network in the hospitals and drugstores in various regions of the PRC, particularly in Shanghai.

LETTER FROM THE BOARD

(c) Information on Shanghai Pharmaceutical

Shanghai Pharmaceutical is a joint stock limited company incorporated in the PRC, the A shares of which are listed on the Shanghai Stock Exchange. Shanghai Pharmaceutical is a promoter and substantial shareholder of the Company.

6. GEM LISTING RULES IMPLICATIONS

Given that each of the applicable percentage ratios in respect of the annual caps of the Transactions in accordance with Rule 19.07 of the GEM Listing Rules exceeds 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 on 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. Two Directors, who have the material interest in the Transaction, have abstained 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.

7. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

On 9 April 2010, Shanghai Pharmaceutical Co., Ltd. was renamed as Shanghai Pharmaceuticals Holding Co., Ltd. due to its internal restructuring. Consequently, the 139,578,560 shares in the Company held by it shall be amended to be in the name of Shanghai Pharmaceuticals Holding Co., Ltd.

To accommodate with this, the Board has proposed to make certain amendments to the Articles of Association in compliance with all relevant and applicable legal and regulatory requirements. The proposed amended Articles of Association will be adopted for use by the Company, upon the Shareholders' approval by way of a special resolution at the EGM.

The proposed amendments deal with matters relating to the aforementioned restructuring, which includes: (1) the renaming of Shanghai Pharmaceutical Co., Ltd. (上海市醫藥股份有限公司), a substantial shareholder and promoter of the Company, to Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司); and (2) a minor change in the corporate information of the Company.

LETTER FROM THE BOARD

8. EGM

The Company will convene the EGM for considering and, if thought fit, passing the resolution for the approval of the Transactions and the proposed amendments to the Articles of Association. 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 Shops 1712-1716 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 24 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.

9. RECOMMENDATIONS

The Directors (including the independent non-executive Directors) are of the view that the terms of the Transactions are on normal commercial terms and are fair and reasonable; together with the proposed amendments to the Articles of Association, they are 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 12 to 13 of this circular and the letter of advice from Mega Capital to the Independent Board Committee and the Independent Shareholders set out on pages 14 to 24 of this circular.

10. ADDITIONAL INFORMATION

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

10 September 2010

To the Independent Shareholders,

Dear Sir or Madam,

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

We refer to the circular dated 10 September 2010 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 11 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 on pages 14 to 24 of the Circular, which contains its advice to us in respect of the Transactions.

** For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*

LETTER OF ADVICE FROM MEGA CAPITAL

The following is the full text of the letter of advice from Mega Capital to the Independent Board Committee and the Independent Shareholders dated 10 September 2010 for incorporation in this circular.



Units 2213-2214, 22/F., Cosco Tower
183 Queen's Road Central, Hong Kong

10 September 2010

*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 10 August 2010, the Company and Shanghai Pharmaceutical Distribution, a newly established and wholly-owned subsidiary of Shanghai Pharmaceutical, entered into the Sales and Distribution Agreement, pursuant to which the Company has agreed to authorize Shanghai Pharmaceutical Distribution to sell and distribute the pharmaceutical products of the Company, on a non-exclusive basis, within the Shanghai area for the Contractual Period. As a result of the internal restructuring of Shanghai Pharmaceutical, Shanghai Pharmaceutical has newly established Shanghai Pharmaceutical Distribution as its wholly-owned subsidiary to engage in the trading and distribution of pharmaceutical products.

Prior to entering into the Sales and Distribution Agreement, the Company engaged Shanghai Pharmaceutical to sell and distribute its pharmaceutical products. The Sales and Distribution Agreement replaced the former sales and distribution agreement entered into between the Company and Shanghai Pharmaceutical in 2007. The terms under the Sales and Distribution Agreement are substantially the same as the terms under the former sales and distribution agreement entered into with Shanghai Pharmaceutical in 2007. The former sales and distribution agreement expired on 31

LETTER OF ADVICE FROM MEGA CAPITAL

December 2009 but was not renewed thereafter, pending for the reorganization of Shanghai Pharmaceutical. Shanghai Pharmaceutical Distribution was established on 26 April 2010. As at the Latest Practicable Date, Shanghai Pharmaceutical is a promoter and substantial shareholder of the Company which directly and indirectly held an equity interest of 29.6% in the Company. Shanghai Pharmaceutical Distribution is a newly-established and a wholly-owned subsidiary of Shanghai Pharmaceutical 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. Given that each of the applicable percentage ratios in respect of the annual caps of the Transactions in accordance with Rule 19.07 of the GEM Listing Rules exceeds 5%, the Transactions are subject to reporting, announcement and Independent Shareholders' approval requirements under the GEM Listing Rules. Shanghai Pharmaceutical and its associates are required to abstain from voting on the resolution for approving the Transactions. Two Directors, who have the material interest in the Transactions, have abstained from voting on the resolution for approving the Transactions.

The Independent Board Committee, comprising three 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. 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 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 collectively and individually 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 10 August 2010 relating to the Transactions, the annual reports of the Company for the three years ended 31 December 2009, the first quarterly report for the three months ended 31 March 2010 and the interim report for the six months ended 30 June 2010 of the Company. We have also reviewed the annual report of Shanghai Pharmaceutical for the year ended 31 December 2009 ("2009 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

LETTER OF ADVICE FROM MEGA CAPITAL

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 medical products and the provision of related ancillary services in the PRC. Since its establishment, the Group has been focusing its research efforts on the development of new bio-pharmaceutical drugs.

As stated in the Company's annual report for the year ended 31 December 2009, the Group is now undergoing the process of commercializing the results of the R&D completed in the previous decade. As advised by the Directors, the Group was undergoing a gradual process of turning its R&D results into marketable pharmaceutical products. The Group's core position would be R&D of drugs with patents and commercialization of drugs specific for the PRC market. As stated in the Company's annual report for the year ended 31 December 2009, the Group made satisfactory results on commercialization. Turnover from sales of medical products and the provision of related ancillary services increased by approximately 87.5% from approximately RMB31.9 million for the year ended 31 December 2008 to approximately RMB59.8 million for the year ended 31 December 2009.

In the area of commercialization, the Group has realized production and sales on a photodynamic drug, namely ALA (艾拉®) ("ALA"), and an anti-tumor drug, Libod® (里葆多®) ("Libod"). As advised by the Directors, ALA and Libod were launched for sale in July 2007 and August 2009, respectively. As stated in the Company's annual report for the year ended 31 December 2009, ALA, which is used for the treatment of dermal HPV infectious disease and proliferative disease as represented by condyloma acuminata, has attracted high level of attention from dermatologists all over the country since the launch for sale. The sales of ALA has been increasingly steadily and become one of the largest consumed skin-cure drugs. The sales of ALA in 2009 were almost doubled as compared to the same in 2008. The Directors expected that the sales would continue to increase in the future.

As stated in the Company's annual report for the year ended 31 December 2009, the Group signed an exclusive distribution agreement with Nanjing Medical Co., Ltd. ("Nanjing Medical") in April 2009, to offer the exclusive distribution rights of Libod, a medical product used for the treatment of tumors, to Nanjing Medical in the PRC except Shanghai district for the coming five years. Nanjing Medical made a payment of RMB20,000,000 to the Group in July 2009 as the consideration of the distribution rights. As advised by the Directors, even though Libod was launched in market for a short time since August 2009, the favorable market response was obvious. The Directors expected that Libod would achieve a bigger contribution to the sales of the Group in the future.

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A new cosmetic product, Eyan (易妍) (“Eyan”), which is used for acne, was brought to market in the first half of 2010. As advised by the Directors, the Group is making application for the Certificate of New Drug (新藥證書) for another new drug, Hemoporphin (海姆泊芬), a photodynamic new drug for the treatment of Port Wine Stain that is expected to be launched to market in 2012.

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 Group’s turnover from the sales of medical products and the provision of related ancillary services increased by 68.6% for the year ended 31 December 2008 and 87.5% for the year ended 31 December 2009. The Group’s turnover from the sales of medical products and the provision of related ancillary services for the six months ended 30 June 2010 increased by 85.7% comparing with that for the same period in 2009. The Group’s turnover increased by 28.3% for the year ended 31 December 2008 and 93.5% for the year ended 31 December 2009. For the six months ended 30 June 2010, the Group’s turnover increased by 71.7% comparing with that for the same period in 2009. The Directors expect that the income to be generated from the sales of self-developed pharmaceutical products to be a substantial income source and will continue to increase in the future. By enhancing its marketing function, the Group will advance its integrated operating system with functions including R&D and product manufacture, which can more successfully commercialize its results. As advised by the Directors, it would be the Group’s long-term goal to have its own sales and distribution network established in order to expand its market coverage. However, the establishment of the sales and marketing team will cost the Group significant time and resources. The Directors believed that the engagement of well-established distributors, such as Shanghai Pharmaceutical Distribution, will provide an instant solution to the Group to capture the PRC’s pharmaceutical market.

Shanghai Pharmaceutical Distribution is a wholly-owned subsidiary of Shanghai Pharmaceutical. Shanghai Pharmaceutical is a joint stock limited company incorporated in the PRC whose A shares have been listed on the Shanghai Stock Exchange since 1994. As at the Latest Practicable Date, Shanghai Pharmaceutical directly and indirectly held approximately 29.6% 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 2009 Shanghai Pharmaceutical’s Annual Report, Shanghai Pharmaceutical Group recorded turnover and net profit of approximately RMB19,568 million and RMB173 million, respectively, for the year ended 31 December 2009. The net asset value of Shanghai Pharmaceutical Group as at 31 December 2009 was approximately RMB1,834 million. As part of the reorganization of Shanghai Pharmaceutical, Shanghai Pharmaceutical Distribution is newly established on 26 April 2010 to engage in the trading and distribution of pharmaceutical products and has taken over the extensive sales network of Shanghai Pharmaceutical in the hospitals and drugstores in various regions of the PRC, particularly in Shanghai.

The Directors consider that the PRC’s economy is booming and does not only create affluence among the population, but also a strong increase in the domestic demand in pharmaceutical products. Given the wealth of the PRC population has expanded, the crowd is more aware of personal health and will create a strong demand in the pharmaceutical market. The Directors are in the view of a positive outlook on the PRC pharmaceutical industry due to the increasing awareness of health of general public and expect that the income to be generated from the sales of self-developed pharmaceutical products will continue to increase in the future.

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The Company would continue the Transactions with Shanghai Pharmaceutical Distribution in order to leverage the established and extensive sales and distribution network of Shanghai Pharmaceutical Distribution. 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 Company and the Shareholders as a whole.

Having considered the need of the Group to enhance the commercialization of self-developed medicine products in order to capture the market share from the expanding pharmaceutical industry, the merits of utilizing the sales and distribution network of the Shanghai Pharmaceutical Group and 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 and continue the distribution service provided by the Shanghai Pharmaceutical Group.

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. In accordance with the Sales and Distribution Agreement, for each subsequent sales transaction of each type of medical product, the Parties shall sign and execute a separate sale contract in which terms including, but not limited to, name of the medical product, technical characteristics, quantity, price, point and method of delivery, and payment arrangement etc., will be specified.

The Sales and Distribution Agreement shall be effective from the date of signing of the agreement (i.e. 10 August 2010) up to 31 December 2012, 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 and the term of the Sales and Distribution Agreement can be extended by mutual 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 Distribution for the sales and distribution

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services provided. The actual price may, subject to mutual agreement between the Company and Shanghai Pharmaceutical Distribution, be adjusted from time to time based on the actual sales volume of the product, the quality of sales services provided by Shanghai Pharmaceutical Distribution and the share of promotion cost between both Parties (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.

In order to assess whether the price of pharmaceutical products offered to Shanghai Pharmaceutical Distribution is similar to that available to Independent Third Parties, we have selected and reviewed the sales contracts/sales invoices of ALA provided by the Company for the years from 2007 to 2009 and entered into between (i) the Company and Shanghai Pharmaceutical; and (ii) the Company and Independent Third Parties. Based on such review, we found that the selling price charged to Shanghai Pharmaceutical was determined in line with the Pricing Principle and that it was comparable to those charged to the Independent Third Parties.

(ii) *Payment*

There are no specific payment terms mentioned under the Sales and Distribution Agreement. In accordance with the Sales and Distribution Agreement, the payment terms will be specified in the individual sales contracts to be entered into. Nonetheless, based on our review as stated in the paragraph headed “Pricing” above, we are not aware the payment terms that were offered to Shanghai Pharmaceutical were less favourable than that offered to the Independent Third Parties.

Annual cap

Historical annual caps and actual transactions amounts from 2007 to 2009

Prior to the introduction of other new drugs/products in 2009 and 2010, the historical connected transaction amounts with Shanghai Pharmaceutical under the former Sales and Distribution Agreement were all in respect of the sales of ALA and the historical amounts for the three financial years ended 31 December 2009 were all derived from the sale of ALA by Shanghai Pharmaceutical in the Shanghai area. ALA, a kind of photodynamic drug for the treatment of Condyloma acuminata, was launched in the market in July 2007.

For the three years ending 31 December 2009, the annual caps under the historical transactions were RMB8,000,000, RMB20,000,000 and RMB40,000,000 while the actual transaction amounts were RMB723,000, RMB2,435,000 and RMB386,000 respectively. The substantial excess of the historical annual caps over the actual transaction amounts was attributable to the over-estimation of the market performance for the sales of ALA, usage of which required to be complemented with medical equipments and complementary therapies. As a result, its market growth rate was much lower than expected.

The historical amounts between the Company and Shanghai Pharmaceutical dropped significantly from RMB2,435,000 in year 2008 to RMB386,000 in year 2009 because the Company

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entered into a head distribution agreement with a nation-wide distributor in Jiangsu province for the whole of the PRC, including the Shanghai area. Since then, most of the sales of ALA were made through the head distributor and the transaction amounts for ALA with Shanghai Pharmaceutical dropped significantly in 2009.

The total national sales of ALA for the whole of China (including sales in the Shanghai area) for the three financial years ended 31 December 2009 were approximately RMB3.045 million (from July to December 2007), RMB15.42 million and RMB29.012 million, respectively, with the sales in 2009 representing an increase of several times compared with the initial sales in year of launch of ALA in 2007.

Estimated annual caps for the three years ending 31 December 2012

In addition to ALA, there are two more drugs/products, namely Libod and Eyan, to be distributed by Shanghai Pharmaceutical Distribution in the Shanghai area under the Sales and Distribution Agreement for the next three financial years ending 31 December 2012. The Directors expect that during the next three financial years, at least one more new drug/pharmaceutical product will have obtained approval from SFDA, which will also be distributed by Shanghai Pharmaceutical Distribution under the Sales and Distribution Agreement.

The basic information of Libod and Eyan is as follows:

Libod

Libod, an anti-tumor drug, was launched in August 2009. The exclusive distributor for Libod for the whole of the PRC (other than the Shanghai area) from 2009 to 2014 is Nanjiang Medical. Pending the reorganization of Shanghai Pharmaceutical, the Company separately appointed another local distributor in Shanghai, which is not related to Shanghai Pharmaceutical or its group of companies, to be its distributor for Libod in the Shanghai area. The historical sales of Libod in the Shanghai area from January 2010 to 10 August 2010 was approximately RMB0.902 million.

Eyan

Eyan, a cosmetic product for treatment of acne, was launched in June 2010. Prior to the establishment of Shanghai Pharmaceutical Distribution, all sales of Eyan in the Shanghai area were made through Shanghai Pharmaceutical and the historical sales amount for the period from June 2010 to 10 August 2010 were less than RMB50,000.

The Board estimated that the proposed annual caps under the Transactions for the three years ending 31 December 2012 are approximately RMB13,000,000, RMB40,000,000 and RMB80,000,000, respectively.

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The annual cap for the financial year ending 31 December 2010 is estimated based on the following:

- (i) The proposed annual cap of RMB13 million is based on the estimated sales for the five-month period commencing from the execution of the Sale and Distribution Agreement on 10 August 2010 to 31 December 2010;
- (ii) The historical sales amount prior to the execution of the Sales and Distribution Agreement from the beginning of 2010 were small and insignificant. As stated above, the sales of Eyan before 10 August 2010 was less than RMB50,000 and have been taken into account by the Directors when preparing the estimate for the 2010 annual cap; and
- (iii) The Directors expect with the appointment of Shanghai Pharmaceutical Distribution as the distributor, which has a more effective and efficient sales and distribution channels in the Shanghai area, the sales of the three drugs/products will increase. The estimated sales of the three drugs/products for the five-month period from 10 August 2010 to the end of December 2010 are approximately RMB5 million to RMB6 million for ALA, RMB5 million to RMB6 million for Libod and RMB1 million to RMB2 million for Eyan, adding to a total of approximately RMB13 million.

The annual caps for the two years ending 31 December 2012 are estimated based on the following:

- (i) As the expected sales for the five months from 10 August 2010 to 31 December 2010 are estimated to be at RMB13 million, the annual cap of RMB40 million for the entire financial year ending 31 December 2011 represents a normal and anticipated growth of 25% to 30% in sales for the three drugs/products as compared to the estimated annual sales for 2010;
- (ii) The Directors anticipate that within 1 to 2 years after the launch of a new drug/products, and normally there would be a significant surge in sales if the new drug/product is well received by the market, as is evidenced by the several times growth in sales of ALA. Since Libod and Eyan would have been launched in the market for approximately two years by year 2012, the Directors therefore expect a significant growth in the sales in these two products for the year 2012;
- (iii) The Directors expect by year 2012, the Company would have at least one more new drug/pharmaceutical product obtaining the SFDA approval and launched in the market; and
- (iv) Based on the above, the Directors estimate the annual cap for the year ending 31 December 2012 at RMB80 million, as compared with the annual cap of RMB40 million for the year 2011.

There were sale and distribution transactions occurred between the Company and Shanghai Pharmaceutical for the first six months ended 30 June 2010 and the amount is less than RMB50,000. The low transaction volume is mainly due to the pending situation for the reorganization of Shanghai Pharmaceutical and the conversion process of the Company's sales strategy.

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Our view

As stated in the “Background of and reasons for entering into the Transactions”, the Group’s priority is to commercialize its self-developed pharmaceutical products from the R&D results achieved in the previous decade, and to pursue a long-term stable source of income. The following table summarizes the breakdown of turnover of the Group for the three years ended 31 December 2009 and the six months ended 30 June 2009 and 2010.

Break down of the Group’s turnover for the three years ended 31 December 2009 and the six months ended 30 June 2009 and 2010

	Year 2007	Year 2008	Year 2009	First Half 2009	First Half 2010
Sales of medical products and the provision of related ancillary services (<i>in RMB’000</i>)	18,927	31,902	59,807	18,904	35,098
Research and development activities (<i>in RMB’000</i>)	6,000	88	2,098	2,000	800
Total (<i>in RMB’000</i>)	24,927	31,990	61,905	20,904	35,898
Growth of sales of medical products and the provision of related ancillary services (<i>in %</i>)	—	68.6%	87.5%	—	85.7%

The above figures illustrate the expansion of the Group’s sales of medical products and the provision of related ancillary services. The Group’s turnover from the sales of medical products and the provision of related ancillary services increased by 68.6% for the year ended 31 December 2008 and 87.5% for the year ended 31 December 2009. The Group’s turnover from the sales of medical products and the provision of related ancillary services for the six months ended 30 June 2010 increased by 85.7% comparing with that for the same period in 2009. When comparing to the six months ended 31 December 2009, however, the sales of medical products and the provision of related ancillary services for the six months ended 30 June 2010 represented a decline of 14.2%. Nevertheless, the Group’s financial performance from 2007 to 2009 showed the Group achieved higher sales in the second half than in the first half in each year (ie, 1H2007: RMB7 million and 2H2007: RMB11.9 million; 1H2008: RMB14.7 million and 2H2008: RMB17.2 million; 1H2009: RMB18.9 million and 2H2009: RMB 40.1 million). The Directors expect that the income to be generated from the sales of self-developed pharmaceutical products will continue to be a substantial income source and increase in the future.

Based on (i) the substantial growth in the sales of the Group’s medical products and the provision of related ancillary services achieved during the years from 2007 to 2009 and the six months ended 30 June 2010; (ii) the bases for estimating the annual caps for the three years ending 31 December 2012 as discussed above; (iii) the general positive business outlook of pharmaceutical industry in the

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PRC, we consider that the cap amounts stipulated under the Sales and Distribution Agreement for the three years ending December 2012 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.

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 2012 subject to the following conditions:

1. The Transactions will be
 - a. entered into 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 ended 31 December 2012 shall not exceed RMB13,000,000, RMB40,000,000 and RMB80,000,000; 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.

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RECOMMENDATION

Having considered the above factors, in particular,

- (i) the background of and reasons for carrying out the Transactions;
- (ii) based on our review on the sales contracts/sales invoices for the years from 2007 to 2009, the selling price charged to Shanghai Pharmaceutical was determined in line with the Pricing Principle and that it was comparable to those charged to the Independent Third Parties;
- (iii) the cap amounts stipulated under the Sales and Distribution Agreement for the three years ending 31 December 2012 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; and
- (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 on normal commercial terms and in the ordinary and usual course of business and 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
Alfred Wong
Managing Director

APPENDIX I PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The English version of this Appendix is an unofficial translation of its Chinese version. In case of any discrepancy between the two versions, the Chinese version shall prevail.

Proposed amendments to the articles of the Articles of Association are set out as follows (appropriate consequential changes to the numbering and sequence of the relevant chapter, article, paragraph and subparagraph will be made, if required, which will not be specifically described herein):

1. The original Paragraph 4 of Article 1 provides:

The promoters of the Company are China General Technology (Group) Holding Ltd. (中國通用技術(集團)控股有限責任公司), Shanghai Pharmaceutical Co., Ltd. (上海市醫藥股份有限公司), Shanghai Zhangjiang High-Tech Park Development Co., Ltd. (上海張江高科技園區股份有限公司), Shanghai Pudong Technology Investment Co., Ltd. (上海浦東科技投資有限公司), Fu Dan University (復旦大學), Wang Hai Bo (王海波), Su Yong (蘇勇), Zhao da Jun (趙大君), Li Jun (李軍) and Fang Jing (方靖).

Hereby shall be amended to:

The promoters of the Company are China General Technology (Group) Holding Ltd. (中國通用技術(集團)控股有限責任公司), Shanghai Pharmaceutical Co., Ltd. (上海市醫藥股份有限公司), it has been renamed as Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司) due to its restructuring), Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. (上海張江高科技園區開發股份有限公司), Shanghai Pudong Technology Investment Co., Ltd. (上海浦東科技投資有限公司), Fu Dan University (復旦大學), Wang Hai Bo (王海波), Su Yong (蘇勇), Zhao Da Jun (趙大君), Li Jun (李軍) and Fang Jing (方靖).

2. The original Article 3 provides:

The Company's address is No.308, Cai Lun Road, Zhang Jiang Hi-Tech Park, Pudong New Area, Shanghai, China; post code: 201203; telephone: 86-21-58953355; facsimile: 86-21-58853990.

Hereby shall be amended to:

The Company's address is No.308, Cai Lun Road, Zhang Jiang Hi-Tech Park, Pudong New Area, Shanghai, China; post code: 201210; telephone: 86-21-58953355; facsimile: 86-21-58553990.

3. The original Paragraph 2 of Article 22 provides:

After increase of capital by issuing shares as referred to in the preceding paragraph, the share capital structure of the Company is 710,000,000 issued ordinary shares, of which 512,000,000 Domestic-Invested Shares are held by China General Technology (Group) Holding Ltd. (中國通用技術(集團)控股有限責任公司), Shanghai Pharmaceutical Co., Ltd. (上海市醫藥股份有限公司), Shanghai Zhangjiang High-Tech Park Development Co., Ltd. (上海張江高科技

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園區股份有限公司), Shanghai Pudong Technology Investment Co., Ltd. (上海浦東科技投資有限公司), Fu Dan University (復旦大學), Wang Hai Bo (王海波), Su Yong (蘇勇), Zhao da Jun (趙大君), Li Jun (李軍) and Fang Jing (方靖), as the promoters of the Company, approximately representing 72.11% of the total issued ordinary shares of the Company; and 198,000,000 H Shares are held by the holders of Overseas-Listed Foreign-Invested Shares (H shares), representing 27.89% of the Company's total share capital.

Hereby shall be amended to:

After increase of capital by issuing shares as referred to in the preceding paragraph, the share capital structure of the Company is 710,000,000 issued ordinary shares, of which 512,000,000 Domestic-Invested Shares are held by China General Technology (Group) Holding Ltd. (中國通用技術(集團)控股有限責任公司), Shanghai Pharmaceutical Co., Ltd. (上海市醫藥股份有限公司, it has been renamed as Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司) due to its restructuring), Shanghai Zhangjiang High-Tech Park Development Co., Ltd. (上海張江高科技園區開發股份有限公司), Shanghai Pudong Technology Investment Co., Ltd. (上海浦東科技投資有限公司), Fu Dan University (復旦大學), Wang Hai Bo (王海波), Su Yong (蘇勇), Zhao Da Jun (趙大君), Li Jun (李軍) and Fang Jing (方靖), as the promoters of the Company, approximately representing 72.11% of the total issued ordinary shares of the Company; and 198,000,000 H Shares are held by the holders of Overseas-Listed Foreign-Invested Shares (H shares), representing 27.89% of the Company's total share capital.

4. The other stipulations in the Articles of Association of the Company shall remain unchanged.

1. RESPONSIBILITY STATEMENTS

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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 or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. NO 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 2009, 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 executives of the Company and their respective associates had any interests and/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 are 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/or short positions which they have taken or which they are deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register maintained by the Company 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 Directors	Class of Shares	Number of Shares held	Capacity	Type of interest	Percentage	Percentage
					in the respective class of share capital (%)	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.

(b) Interest and/or short position of entities (other than the Directors, supervisors or chief executives 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/or short positions in the shares or underlying shares of the Company which are required to 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 Industrial Investment (Holdings) Co., Ltd.	Domestic Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	27.26	29.60
	H Shares	70,564,000 (L)			35.64	
Shanghai Pharmaceutical Holding Co., Ltd. ²	Domestic Shares	139,578,560 (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 Co., Ltd.	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
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

Note 1: The letter “L” stands for long position

Note 2: As at the Latest Practicable Date, based on the latest information provided by Shanghai Industrial Investment (Holdings) Co., Ltd., Shanghai Pharmaceutical directly and indirectly held approximately 29.6% of the equity interest of the Company.

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 2009, 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:

Name	Qualifications
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 10 September 2010 given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and opinion dated 10 September 2010 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 2009, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. 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.

9. GENERAL

- (a) The registered office of the Company is situated at No.308, Cailun Road, Zhangjiang Hi-Tech Park, Pudong New Area, Shanghai, 201210, China.
- (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 at Shops 1712-1716 17th 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. Xue Yan is the company secretary and an authorized representative of the Company. She is a member of Hong Kong Institute of Certified Public Accountants (HKICPA), the Association for Chartered Certified Accountants (ACCA) and Chinese Institute of certified Public Accountants (CICPA).
- (f) The English text of this circular shall prevail over the Chinese text.

10. 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 29 October 2010:

- (a) the Sales and Distribution Agreement;

- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 12 to 13 of this circular;
- (c) 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 14 to 24 of this circular; and
- (d) the written consent of Mega Capital referred to in paragraph 7(c) above.

NOTICE OF EGM



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 an 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 No. 308, Cailun Road, Zhangjiang Hi-Tech Park, Pudong New Area, Shanghai, China on Friday, 29 October 2010 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

AS AN ORDINARY RESOLUTION:

“**THAT**

- (i) the entering into of Sales and Distribution Agreement dated 10 August 2010, a copy of which has been produced to the EGM for the purpose of identification, between the Company and Shanghai Pharmaceutical Distribution, a newly-established and wholly-owned subsidiary of Shanghai Pharmaceutical (which is a promoter and substantial shareholder of the Company), whereby the Company has agreed to authorize Shanghai Pharmaceutical Distribution to sell and distribute the pharmaceutical products of the Company within the Shanghai area during the period from 10 August 2010 to 31 December 2012; and (ii) that the annual caps for the three financial years ending 31 December 2012 and the transactions contemplated thereto be and are hereby approved and THAT any one of the Directors of the Company be and is hereby authorized to do, approve and transact all such acts and things as the Director may in his/her discretion consider necessary or desirable in connection therewith.”

AS A SPECIAL RESOLUTION:

“**THAT**

the proposed amendments to the Articles of Association (details of which are set out in the Appendix I to the circular to be despatched to the Shareholders of the Company on or before 10 September 2010) be approved and confirmed, and THAT any one of the Directors of the Company be and are hereby authorized to modify the wordings of such amendments as appropriate (such amendments will not be required to be approved by the Shareholders of the Company) and

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execute all such documents and/or do all such acts as the Director may, in his/her absolute discretion, deem necessary or expedient and in the interest of the Company to deal with related issues arising from the amendments to the Articles of Association of the Company.”

By order of the Board
Wang Hai Bo
Chairman

Shanghai, the PRC
10 September 2010

** For identification purpose only*

Notes:

1. The register of holders of H Shares of the Company will be closed from Tuesday, 28 September 2010 to Friday, 29 October 2010 (both days inclusive). During this period, no transfer of H shares will be registered. Any holder of the H Shares of the Company and whose name appearing in the Company’s register of holders of H Shares with Computershare Hong Kong Investor Services Limited at the close of business hours on Monday, 27 September 2010 and have completed the registration process, will be entitled to attend the EGM.

Address of Computershare Hong Kong Investor Services Limited is as follows:

Shops 1712-1716,
17th Floor,
Hopewell Centre,
183 Queen’s Road East,
Hong Kong

2. 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/her stead. A proxy need not be a shareholder of the Company.
3. 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.

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4. In order to be valid, the proxy form duly completed and signed in accordance with the instructions printed thereon, together with the power of attorney or other authority (if any) under which it is signed, and 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, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 24 hours before the time appointed for holding the meeting or any adjourned meeting as the case may be.
5. The resolutions as set out above are 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.
6. Any shareholder of the Company entitled to attend the EGM are requested to complete and deliver the reply slip for attendance to the Secretary to the Board of the Company on or before Saturday, 9 October 2010.

Details of the Office of the Secretary to the Board of the Company are as follows:

No. 308, Cailun Road
Zhangjiang Hi-Tech Park
Pudong New Area,
Shanghai, China
Post Code: 201210
Tel : 86-21- 5855 3628
Fax : 86-21- 5855 3893