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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)

CONNECTED TRANSACTION

**Establishment of 上海先導藥業有限公司
(Lead Discovery Limited Company*)**

Joint Financial Advisers



Barits Securities (Hong Kong) Limited



Guotai Junan Capital Limited

On 21 November 2002, the Company entered into the Agreement with Shanghai Institute, Shanghai Pharmaceutical, Mr. Jiang Hua Liang and Shanghai Technology to establish Lead Discovery, a limited liability company, to replace the Joint Lab as set out in the Company's prospectus dated 31 July 2002. On 18 November 2002, the parties to the Joint Lab entered into an agreement pursuant to which the parties agreed to distribute all the assets of the Joint Lab in accordance with their respective investment ratio and, upon the establishment of Lead Discovery, to apply such assets as their respective capital contributions to Lead Discovery.

The registered capital of Lead Discovery will be RMB30 million (approximately HK\$28.04 million), which will comprise RMB9.6 million of intangible assets and RMB4.8 million of fixed assets transferred from the Joint Lab and RMB15.6 million of cash. It is intended that ultimately the assets of Lead Discovery will comprise all the assets transferred from the Joint Lab of RMB24 million (which will be achieved in two stages as set out below) and the capital contribution of RMB6 million by a new shareholder, Shanghai Technology. Upon completion of the capital contribution, Lead Discovery will be owned as to 20% by Shanghai Institute, 24% by the Company, 24% by Shanghai Pharmaceutical, 20% by Shanghai Technology and 12% by Mr. Jiang Hua Liang, respectively.

The principal activities of Lead Discovery will comprise, among other things, high throughput screening of new drugs, R&D of "me-too" and natural drug technologies, transfer and licensing of patented research results and products, R&D, production and sales of medical compounds as well as bio-technological advisory services.

An application has been made to 上海市科學技術委員會 (the Science and Technology Committee of the Shanghai Municipality*) for the grant of a RMB10 million subsidy (non-repayable) to Lead Discovery upon its establishment to finance its R&D of new drugs. The Directors are confident that such subsidy will be granted.

The setting up of Lead Discovery, which was negotiated on an arm's length basis and based on normal commercial terms by reference to the valuation reports prepared by the Valuer, constitutes a connected transaction of the Company under the GEM Listing Rules by virtue of the fact that Shanghai Pharmaceutical is an initial management Shareholder and substantial Shareholder. However, the consideration of the Connected Transaction is less than the higher of HK\$10 million or 3% of the net tangible assets of the Company. Under Rule 20.24 of the GEM Listing Rules, the Company is only required to disclose details of the Connected Transaction in this announcement and its annual report for 2002.

The Agreement dated 21 November 2002

Parties:

1. the Company;
2. Shanghai Institute;
3. Shanghai Pharmaceutical;
4. Mr. Jiang Hua Liang; and
5. Shanghai Technology

The Agreement will be effective from its date of execution for a term of 30 years and each party shall be entitled to share the profits and losses of Lead Discovery in accordance with their respective shareholding therein.

Distribution of the assets of the Joint Lab

As stated in the Company's prospectus dated 31 July 2002, the Company and the other parties to the Joint Lab intended to convert the Joint Lab, a non legal person joint venture, into a limited liability company. As planned, on 18 November 2002, the parties to the Joint Lab entered into an agreement pursuant to which the parties agreed to distribute all the assets of the Joint Lab in accordance with their respective investment ratio and, upon the establishment of Lead Discovery, to apply such assets as their respective capital contributions to Lead Discovery.

Since the establishment of the Joint Lab, the capital contribution made by each of the Company, Shanghai Institute and Shanghai Pharmaceutical amounted to RMB6.75 million, RMB9 million and RMB6.75 million respectively while the assets of the Joint Lab were valued by the Valuer at about RMB24 million as at 30 June 2002. As stated in the valuation report of the Joint Lab, fixed assets were valued by the methodology of replacement values and intangible assets were valued by net present values. The distribution schedule of the Joint Lab is set out below:

**Assets distribution in accordance
with the agreement dated 18 November 2002**

Party	
1. Company	PPAR γ activator (RMB6 million), drug research equipment (RMB1.2 million) and Lipase inhibitor (at preliminary stage, no value assigned)
2. Shanghai Institute	Lyclooxigerade-2 (Cox-2) selective inhibitor (RMB9.6 million)
3. Shanghai Pharmaceutical	K ⁺ channel inhibitor (RMB3.6 million) and drug research equipment (RMB3.6 million)

Information on Lead Discovery

Lead Discovery is a limited liability company to be established in Shanghai, the PRC, when the business license is expected to be granted by 浦東新區工商行政管理局 (the Administration for Industry and Commerce of the Pudong New Area*) before the end of 2002. The registered capital of Lead Discovery will be RMB30 million (approximately HK\$28.04 million) which will comprise RMB9.6 million of intangible assets and RMB4.8 million of fixed assets transferred from the Joint Lab and RMB15.6 million of cash. It is intended that ultimately the assets of Lead Discovery will comprise all the assets transferred from the Joint Lab of RMB24 million (which will be achieved in two stages as set out below) and the capital contribution of RMB6 million by a new shareholder, Shanghai Technology.

Stage 1 — capital contribution

According to the PRC Company Law, to establish a limited liability company, the percentage of intangible assets to be contributed as capital shall not exceed 20% of the total registered capital of the company, unless such intangible assets are duly recognised as a high and new technology and in such circumstances, the total intangible assets may amount up to 35% of its total registered capital.

Shanghai Institute and Mr. Jiang Hua Liang have submitted to 上海市科學技術委員會 (the Science and Technology Commission of the Shanghai Municipality*) an application for recognising Lyclooxigerade-2 (Cox-2) selective inhibitor as a high and new technology. A preliminary approval of 上海市張江高科園區領導小組辦公室 (the Leaders' Office of Shanghai Zhangjiang High-tech Park*) has been obtained, which recognises Lyclooxigerade-2 (Cox-2) selective inhibitor as a high and new technology. With this preliminary approval, the Directors have been advised by Shanghai Institute and Mr. Jiang that there will be no difficulty to obtain the final approval or certificate of recognition from 上海市科學技術委員會 (the Science and Technology Commission of the Shanghai Municipality*).

Assuming that the final approval or certificate of recognition is obtained, Lyclooxigerade-2 (Cox-2) selective inhibitor will be injected into Lead Discovery as the capital contribution by Shanghai Institute and Mr. Jiang Hua Liang. After the injection, the intangible asset of Lyclooxigerade-2 (Cox-2) selective inhibitor will amount to RMB9.6 million, or 32% of the registered capital of Lead Discovery. Of the value of RMB9.6 million of Lyclooxigerade-2 (Cox-2) selective inhibitor, RMB6 million (62.5%) will be attributable to Shanghai Institute and RMB3.6 million (37.5%) to Mr. Jiang Hua Liang, in recognition of his contribution to the Joint Lab. Mr. Jiang Hua Liang is an employee of Shanghai Institute, and upon the contribution of Lyclooxigerade-2 (Cox-2) selective inhibitor to Lead Discovery, Mr. Jiang will become another new shareholder of Lead Discovery. If the final approval of Lyclooxigerade-2 (Cox-2) selective inhibitor as a high and new technology is not obtained, the ratio of intangible assets to registered capital of Lead Discovery has to be adjusted to 20% or less by either reducing their shareholding in Lead Discovery or replacing part of their intangible assets investment with tangible assets.

The proposed shareholding structure and capital contribution by each of the 5 shareholders upon the establishment of Lead Discovery are set out below:

Party	Capital contribution (RMB)	Shareholding in Lead Discovery
the Company	<ul style="list-style-type: none"> ● 1.2 million (drug research equipment) ● 6 million (cash) 	24%
Shanghai Institute	<ul style="list-style-type: none"> ● 6 million (62.5% interests of Lyclooxigerade-2 (Cox-2) selective inhibitor) 	20%
Shanghai Pharmaceutical	<ul style="list-style-type: none"> ● 3.6 million (cash) ● 3.6 million (drug research equipment) 	24%
Mr. Jiang Hua Liang	<ul style="list-style-type: none"> ● 3.6 million (37.5% interests of Lyclooxigerade-2 (Cox-2) selective inhibitor) 	12%
Shanghai Technology	<ul style="list-style-type: none"> ● 6 million (cash) 	20%

The registered capital will be paid up at the date of completion of the Connected Transaction when the business license is expected to be granted by 浦東新區工商行政管理局 (the Administration for Industry and Commerce of the Pudong New Area*) on or before the end of 2002. The RMB6 million to be contributed by the Company will be financed by its internal resources.

Stage 2 — acquisition of intangible assets

If the final approval or certificate of recognition of Lyclooxigerade-2 (Cox-2) selective inhibitor is duly obtained, Lead Discovery will be legally established with the capital structure set out above. After the establishment of Lead Discovery, it is intended that Lead Discovery will acquire the drugs, namely PPAR γ activator and K⁺ channel inhibitor, from the Company and Shanghai Pharmaceutical respectively, in return for cash payments amounting to RMB6

million and RMB3.6 million respectively based on the valuation reports prepared by the Valuer. The Company's PRC legal advisers have advised that the intended acquisition of the drugs, namely PPAR γ activator and K⁺ channel inhibitor, and subject to obtaining the final approval or certificate of recognition, the above proposed shareholding structure of Lead Discovery are in compliance with the PRC Law.

In the event of any change in the capital structure of Lead Discovery due to the fact that the final approval of Lyclooxigerade-2 (Cox-2) selective inhibitor as a high and new technology is not obtained, the Company will make a further announcement.

Further information

The Connected Transaction is simply a formalisation of the corporate structure of the Joint Lab through the establishment of a limited liability company with the additional capital contribution of RMB6 million by a new shareholder and the introduction of a new shareholder for recognition of his past contribution. The actual R&D activities of the four drug projects under the Joint Lab, namely PPAR γ activator, Lipase inhibitor, Lyclooxigerade-2 (Cox-2) selective inhibitor and K⁺ channel inhibitor, will continue under the present R&D platform including, among other, the laboratories of Shanghai Institute and the employees of Joint Lab, before and after the establishment of Lead Discovery. Its operating costs, which will be less than RMB200,000 as anticipated by the Directors before the establishment of Lead Discovery, will be paid by the Company in advance which will then reimburse the same from Lead Discovery upon its establishment. Given that nearly all R&D activities of the Group are conducted by the Company's in-house R&D team and that the Connected Transaction has no impact on the R&D projects under the Joint Lab, the Directors consider that the operations of the Group will be conducted as usual.

The board of directors of Lead Discovery will comprise 5 directors who will be appointed by each of the 5 shareholders respectively. The first chairman of Lead Discovery will be appointed by Shanghai Institute and thereafter, the position of chairman will be elected annually. Mr. Wang Hai Bo and Mr. Su Yong, two Directors, will be appointed as a director and a supervisor of Lead Discovery respectively.

Reasons for the establishment of Lead Discovery

The Company is principally engaged in the R&D of new drugs and related technologies.

Lead Discovery will be principally engaged in the same line of business of the Joint Lab, which will comprise, among other things, high throughput screening of new drugs, R&D of “me-too” and natural drug technologies, transfer and licensing of patented research results and products, R&D, production and sales of medical compounds as well as bio-technological advisory services. The establishment of Lead Discovery will formalise the corporate structure of the Joint Lab and enable the introduction of two valuable shareholders namely Shanghai Technology and Mr. Jiang, into Lead Discovery. In addition, an application has been made to 上海市科學技術委員會 (the Science and Technology Committee of the Shanghai Municipality*) for the grant of a RMB10 million subsidy (non-repayable) to Lead Discovery upon its establishment to finance its R&D of the drugs, namely PPAR γ activator, Lyclooxigerade-2 (Cox-2) selective inhibitor and K⁺ channel inhibitor. Given that 上海市科學技術委員會 (the Science and Technology Committee of the Shanghai Municipality*) has verbally agreed to such subsidy upon the establishment of Lead Discovery, the Directors are confident that such subsidy will be granted. The Directors are of the view that the terms of the Connected Transaction are fair and reasonable and that the Connected Transaction is in the interest of the Company and the Shareholders as a whole.

Information on the parties to the Agreement

Shanghai Institute, an Independent Third Party, is one of the oldest institutes and the only comprehensive institute for drug research in the Chinese Academy of Sciences, composed of both chemistry and biology fields by multidisciplinary cooperation. Since 1995, over 160 research achievements have been made in Shanghai Institute, of which 88 were awarded prizes in 1978 to 1997. Among them, fourteen major national achievements and prizes were awarded including the National Natural Science Prizes, National Invention Prizes and National Prizes on Advances in Science and Technology. The others were awarded by the Chinese Academy of Sciences, Shanghai Municipal or other provincial authorities.

Shanghai Pharmaceutical, a company whose A shares are listed on the Shanghai Stock Exchange, the PRC, is held as to approximately 39.69% by Shanghai Pharmaceutical (Group) Corporation, a state owned enterprise. Shanghai Pharmaceutical retails and wholesales a variety of pharmaceutical products including biopharmaceuticals, chemical and Chinese traditional medicines, and healthcare products. Shanghai Pharmaceutical also invests in new medicine development and provides related services and has 13 types of export and import permits and has a sales network which covers nearly all of the cities of the PRC including Hong Kong and Macau. Shanghai

Pharmaceutical is one of the largest trading and industrial companies in the PRC which has a relatively broad sales network and strong market developing power among the other competitors in the same industry. Shanghai Pharmaceutical, an initial management Shareholder, holds approximately 19.66% interest in the Company.

Mr. Jiang Hua Liang is an Independent Third Party and an employee of Shanghai Institute. Since 1992, Mr. Jiang has been highly involved in the R&D projects in relation to the computer assisted drug design, theoretical chemistry and theoretical biology. He obtained his PhD. in theoretical chemistry in July 1995. Mr. Jiang joined Shanghai Institute in September 1995 as an assistant researcher and has been involved in the R&D of bio-pharmaceutical products. His contribution on the bio-pharmaceutical field has won him awards like first class prize from the Third Chinese New Medical Doctor Forum held by National Science and Technology Commission.

Shanghai Technology, a company established in the PRC in 1992 with initial registered capital of RMB500 million, is wholly owned by the People's Government of Shanghai Municipality. It is principally engaged in investments in high technology in the PRC. Shanghai Technology is an Independent Third Party.

Mr. Jiang and Shanghai Technology are not parties to the Joint Lab and they are introduced as shareholders of Lead Discovery because Mr. Jiang is an expert in the R&D of bio-pharmaceutical products and Shanghai Technology is an investment company dedicated to high technology investment.

Given the background of the above parties, Lead Discovery is well positioned to leverage Shanghai Institute's strength in the research of small molecular compounds, Shanghai Pharmaceutical's strength in marketing and sales, Mr. Jiang's expertise in the research of bio-pharmaceutical products, Shanghai Technology's capital support as well as the Company's strength in genetic engineering and high throughput screening for new drug research and development.

Given that the Connected Transaction is simply a formalisation of the corporate structure of the Joint Lab through the establishment of a limited liability company without incurring further funding from the Company and that the R&D of the existing four drug projects of the Joint Lab will continue to be undertaken by Lead Discovery, the Connected Transaction will not have effect on the Company's pursuit of its business objectives. The Directors advised that there will be no change in the use of proceeds as a result of the establishment of Lead Discovery.

General

The establishment of Lead Discovery constitutes a connected transaction of the Company under the GEM Listing Rules by virtue of the fact that Shanghai Pharmaceutical is an initial management Shareholder and substantial Shareholder. However, the consideration of the Connected Transaction is less than the higher of HK\$10 million or 3% of the net tangible assets of the Company. Under Rule 20.24 of the GEM Listing Rules, the Company is only required to disclose details of the Connected Transaction in this announcement and its annual report for 2002.

Definitions

In this announcement, the following expressions have the meanings set out below unless the content require otherwise.

“Agreement”	the agreement dated 21 November 2002 between the Company, Shanghai Institue, Shanghai Pharmaceutical, Mr. Jiang Hua Liang and Shanghai Technology in relation to the establishment of Lead Discovery in the PRC
“Board”	the board of directors of the Company
“Company”	上海復旦張江生物醫藥股份有限公司 (Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.), a joint stock limited company incorporated in the PRC and whose H Shares are listed on GEM
“Connected Transaction”	the establishment of the limited liability company pursuant to the Agreement
“Directors”	the directors (including independent non-executive directors) of the Company
“Domestic Shares”	the domestic shares of nominal value of RMB0.10 each in the share capital of the Company, which are subscribed for in RMB
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM

“Group”	the Company and its subsidiaries
“high throughput screening”	in vitro screening of large numbers of compounds through the use of automated machinery, and highly automated systems which can screen thousands of compounds per hour, identifying those with a desired chemical and organs
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	party who is independent of and not connected with the promoters, directors, supervisors, chief executive, substantial shareholders or management shareholders of the Company or an associate of any of them
“Joint Lab”	a strategic alliance formed by the Company, Shanghai Institute and Shanghai Pharmaceutical pursuant to an agreement dated 15 December 2000, held as to 30% by the Company, 40% by Shanghai Institute and 30% by Shanghai Pharmaceutical, established for the use of technologies in the screening of new drugs
“Lead Discovery”	上海先導藥業有限公司 (Lead Discovery Limited Company*), a limited liability company to be established pursuant to the Agreement
“PRC”	The People’s Republic of China
“R&D”	research and development
“Shanghai Institute”	中國科學院上海藥物研究所 (Shanghai Institute of Materia Medica under Chinese Academy of Sciences*)
“Shanghai Pharmaceutical”	上海市醫藥股份有限公司 (Shanghai Pharmaceutical Co., Ltd.), a joint stock limited company incorporated in the PRC whose A shares are listed on the Shanghai Stock Exchange, which is held as to 39.69% by Shanghai Pharmaceutical (Group) Corporation, a state-owned enterprise, being its single largest shareholder.

“Shanghai Technology”	上海科技投資公司 (Shanghai Technology Investment Co., Ltd), a state owned enterprise established in the PRC
“Shareholders”	holders of Domestic Shares and of H Shares
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Valuer”	上海上咨資產評估有限公司 (Shanghai Shangzi Assets Appraisal Co., Ltd*), an independent valuer
“HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

By order of the Board
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd
Wang Hai Bo

Hong Kong, 25 November 2002

* *For identification purposes only*

In this announcement, unless otherwise indicated, the exchange rate at HK\$1.00 = RMB1.07 has been used for the purpose of illustration only and it does not constitute a representation that any amount has been or could have been or may be exchanged at such exchange rate.

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