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山東新華製藥股份有限公司
Shandong Xinhua Pharmaceutical Company Limited

(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 0719)

CONNECTED TRANSACTION
ACQUISITION OF 27% EQUITY INTEREST IN SHANDONG XINHUA WANBO
CHEMICAL INDUSTRIAL CO., LTD

Reference is made to the announcements of the Company dated 22 October 2018, 30 November 2018, 18 September 2019, 11 October 2019 and 20 March 2020. Unless otherwise specified, capitalised terms used in this announcement shall have the same meanings as those defined in the abovementioned announcement.

The Company is pleased to announce it has been informed that the Tender in respect of the Wanbo Interests has concluded and the Company has won the Tender at the Listing Price of RMB15,906,834.00.

Prior to the successful bidding of the Tender, the Company already holds 73% of the equity interests in Wanbo Chemical Industrial following the acquisition of 40% and 33% of the equity interests in Wanbo Chemical Industrial in November 2018 and October 2019 respectively (the “**Previous Acquisition**”). Details of the Previous Acquisition were announced in the announcements of the Company dated 22 October 2018, 30 November 2018, 18 September 2019 and 11 October 2019.
SALE AND PURCHASE AGREEMENT

Following the Company’s winning of the Tender, the Company has, in respect of the Wanbo Interests, entered into a sale and purchase agreement (the “**Agreement**”).

The principal terms of the Agreement are set out below:

Date

20 April 2020
(after the trading hours of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”))

Parties

1. The Company; and
2. HHGC

Subject matter

The consideration to be paid by the Company to HHGC for the Wanbo Interests is in the amount of RMB15,906,834.00 (the “**Consideration**”). The Company had paid a security deposit of RMB 2 million (the “**Security Deposit**”) at the submission of the Bidding Application. The Security Deposit will be counted in and applied to set off part of the Consideration. The Company shall within 5 business days from the date of the Agreement make a payment of RMB13,906,834.00 in cash one-off to the bank account designated by SDPREC for the specific purpose of settlement of the transaction under the Agreement.

Wanbo Chemical Industrial is currently 27% owned by HHGC and 73% owned by the Company following the acquisition of 40% and 33% of the equity interests in Wanbo Chemical Industrial by the Company in November 2018 and October 2019 respectively. Subsequent to the completion of the transaction under the Agreement, Wanbo Chemical Industrial will be 100% owned by the Company, and become a wholly-owned subsidiary of the Company. The articles of association and corporate governance structure of Wanbo Chemical Industrial will be updated to reflect the new shareholding structure consequent to the acquisition of the Wanbo Interests accordingly.

Consideration and Basis

The Consideration was the Listing Price for the Wanbo Interests at which the Tender started. The Listing Price was set with reference to the valuation by Chung Rui Assets Appraisal Co., Ltd. (中瑞世聯資產評估(北京)有限公司)(the “**Valuer**”), a qualified valuation institution in the PRC.

According to the valuation report (the “**Valuation Report**”) dated 26 July 2019 issued by the Valuer, as at 30 April 2019 (the “**Benchmark Date**”):

- (a) the total value (the “**Value**”) of shareholders’ equity interests of Wanbo Chemical Industrial was RMB58.9142 million by adopting the income-based approach of valuation; and
- (b) the total value of shareholders’ equity interests of Wanbo Chemical Industrial was RMB56.1162 million by adopting the asset-based approach of valuation.

The Valuer has considered the valuation results based on the abovementioned approaches and opined that (i) the asset-based approach is based on the re-acquirement of assets and reflects the costs for re-acquiring the assets of the Wanbo Chemical Industrial; and (ii) the income-based approach is based on the expectation of the future profitability and reflects the comprehensive profitability of the assets of Wanbo Chemical Industrial. Considering that Wanbo Chemical Industrial manufactures specific chemical products and has relatively more favorable operating conditions, its future income can be relatively accurately predicted. As a result, the Valuer is of the view that it is more suitable to adopt the income-based approach as it can better reflect the total shareholders’ equity interests of Wanbo Chemical Industrial.

An extract of the Valuation Report containing the principal assumptions on which the valuation was based is set out as Appendix for incorporation in and appending to this announcement.

Liabilities

A party to the Agreement shall be liable to the other party for damages consequent to a breach of the Agreement committed by itself as follows:-

- (a) If the Company fails to pay the Consideration according to the Agreement, for each day of late payment, 1% of the Consideration shall be paid to HHGC as damages.
- (b) If the Company fails to perform the above payment obligations after the reminder from HHGC, HHGC has the right to unilaterally terminate the Agreement and require the Company to pay 1%

- of the Consideration as damages.
- (c) If HHGC fails to transfer the Wanbo Interests on time, for each day of late transfer, 1% of the Consideration shall be paid to the Company as damages.
 - (d) If HHGC fails to transfer the Wanbo Interests after the reminder from the Company, the Company has the right to unilaterally terminate the Agreement and require HHGC to pay 1% of the Consideration as damages.
 - (e) If the assets, liabilities or any other material matters of Wanbo Chemical Industrial are not disclosed or are omitted, causing significant adverse effects on Wanbo Chemical Industrial, or affecting the Consideration by more than 30%, the Company has the right to terminate the Agreement and require HHGC to pay 1% of the Consideration as damages. If the Company chooses not to terminate the Agreement, it has the right to require HHGC to pay compensation for the relevant matters.

Pursuant to the Agreement, the Company and HHGC may agree on other ways of compensation upon negotiation.

REASONS FOR AND BENEFITS OF ACQUISITION OF THE WANBO INTERESTS

By acquiring the Wanbo Interests, the Company can further enhancing resources consolidation and improve its overall competitiveness and capability of sustainable development.

The Board and the independent non-executive Directors have considered and reviewed the terms and provisions of the Agreement and considered them fair, reasonable and the transactions contemplated thereunder were entered into on normal commercial terms and in the ordinary and usual course of business, and in the interests of the Company and its shareholders as a whole.

Mr. Zhang Daiming, Mr. Ren Fulong, Mr. Xu Lie, being the Directors, have by virtue of their respective directorships or capacities as a member of the management of a subsidiary of HHGC abstained from voting on the Agreement and the transaction contemplated thereunder. Save as disclosed above, the Company is not aware of any other Directors who has a material interest therein.

INFORMATION OF THE TARGET COMPANY AND THE PARTIES TO THE AGREEMENT

The Company is a joint stock limited company incorporated in the PRC with its H shares and A shares listed on the Stock Exchange and Shenzhen Stock Exchange respectively. The Company is principally engaged in the development, manufacture and sale of bulk pharmaceuticals, preparations and chemical products.

HHGC is a state-owned enterprise principally engaged in investment holding of various companies listed or not listed on the stock exchanges of mainland China and Hong Kong and was transferred its Wanbo Interests from SXPGC, wholly-owned subsidiary of HHGC.

Wanbo Chemical Industrial is a company incorporated in the PRC with limited liability and its principal businesses include the production and sale of such chemical products as dimethyl sulfate, isobutylbenzene, sulfuric acid, diazabicyclo and tetramethylguanidine and the sale of chemical raw materials. According to the audit report of Wanbo Chemical Industrial, its audited financial figures are as follows:

(Rounded off to RMB 0,000)

Item Period	Total assets	Total liabilities	Owner's Equity	Operating Income	Operating profits	Net Profits (before taxation)	Net Profits (after taxation)	Net cash flow from operating activities
Year ended 31 December 2016	5,625.57	4,767.28	858.29	7,951.71	381.30	252.91	217.64	1,294.96
Year ended 31 December 2017	6,052.79	4,631.30	1,421.49	8,165.83	675.91	563.83	405.17	424.13
Year ended 31 December 2018	6,773.34	2,945.93	3,827.41	10,090.90	614.52	589.24	434.28	-2,214.68
Four months ended 30 April 2019	6,587.06	2,614.56	3,972.50	3,302.81	248.12	243.31	181.15	59.05

LISTING RULES IMPLICATIONS

As at the date of this announcement, HHGC, a wholly state-owned company of the PRC, is the immediate controlling shareholder of the Company and therefore a connected person of the Company. Accordingly, the Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Reference is made to the announcements of the Company dated 22 October 2018, 30 November 2018, 18 September 2019 and 11 October 2019 in relation to the Previous Acquisition. Pursuant to Rules 14.22 and 14A.81 of the Listing Rules, the transactions contemplated under the Agreement will be aggregated with the transactions under the Previous Acquisition as if they were one transaction as they were entered into within a 12- month period or are otherwise related.

As all the applicable percentage ratios (with the meanings ascribed thereto under the Listing Rules), on a standalone basis or when aggregated with the Previous Acquisition, are more than 0.1% and less than 5%, the acquisition of the Wanbo Interests under the Agreement is therefore subject to the reporting and announcement requirements but exempt from the circular, independent financial advice and disinterested shareholders' approval requirements under Chapter 14A of the Listing Rules.

PROFESSIONAL PARTY AND CONSENT

As at the date hereof, the Valuer, being a PRC qualified valuer, does not have any beneficial interests in the equity capital or shareholding of the members of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and has given and has not withdrawn its consents to the publication of this announcement, to the references to its names herein and to the incorporation of its statements in this announcement.

By Order of the Board
Shandong Xinhua Pharmaceutical Company Limited
Zhang Daiming
Chairman

20 April 2020, Zibo, the PRC

As at the date of this announcement, the Board comprises:

Executive Directors:
Mr. Zhang Daiming (Chairman)
Mr. Du Deping

Independent Non-executive Directors:
Mr. Li Wenming
Mr. Du Guanhua
Mr. Lo Wah Wai

Non-executive Directors:
Mr. Ren Fulong
Mr. Xu Lie

APPENDIX¹

AN EXTRACT OF THE VALUATION REPORT CONTAINING THE PRINCIPAL ASSUMPTIONS ON WHICH THE VALUATION WAS BASED

(I) General Assumptions

1. It is assumed that there are no material changes in the relevant existing laws, regulations and policies, and macroeconomic conditions of the PRC as well as in the local political, economic and social environment of such places where the parties to the transaction are operating.
2. It is assumed that the company will continue to operate as a going concern after the Benchmark Date.
3. It is assumed that management of the company are accountable and stable, and capable of performing their duties after the Benchmark Date.
4. It is assumed that the company has fully complied with all relevant laws and regulations.
5. It is assumed that there are no material adverse effects on the enterprise caused by force majeure and unforeseeable factors after the Benchmark Date.

(II) Specific Assumptions

1. It is assumed that the business scope and practice of the company will, after the Benchmark Date, remain consistent with the current directions based on the existing management practice and management level of the company.
2. It is assumed that the accounting policies to be adopted by the company after the Benchmark Date are basically consistent with the accounting policies adopted when the report is prepared in respect of key aspects.
3. It is assumed that there will be no substantial changes in relation to interest rate, exchange rate, tax base, tax rate and policy-based levies.

¹ Unless the context otherwise specifies, “company” and “enterprise” in this Appendix shall mean Wanbo Chemical Industrial.

4. It is assumed the company will have a net positive cash flow for the financial years.
5. It is assumed that the products or services of the company will maintain current market competitiveness after the Benchmark Date.
6. It is assumed that the level of research and development and technological advancement of the company will be maintained at the current level after the Benchmark Date.
7. It is assumed that the lease of the company is legal, valid and obligations of which are performed, and will not change or terminate without reasonable cause. There will not be any significant changes to the operating status of the leased premises.
8. The asset appraisal professional did not conduct technical tests on the technical parameters and performance of various equipment on the Benchmark Date, and made determination upon the site survey on the premises on the assumption that the relevant technical data and operating records provided by the client were true and effective.
9. The assessment subject under the site survey by the asset appraisal professional is limited to the appearance and use conditions of the assessment subject. Internal qualities such as the structure have not been tested, so it cannot be determined whether there are internal defects. It is assumed that the internal quality of the assessment subject meets the relevant national standards and is sufficient to maintain its normal use.