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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 established in the People's Republic of China with limited liability)

(Stock Code: 00719)

SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO CONTINUING CONNECTED TRANSACTION

Reference is made to the announcement of the Company in relation to the continuing connected transaction dated 23 June 2020 (the “**Announcement**”). Capitalised terms used herein shall have the same meanings as defined in the Announcement unless the context requires otherwise.

The Company wishes to provide the Shareholders and the public with the following additional information in relation to the Shandong Lukang Agreement.

ACTUAL TRANSACTION AMOUNTS

During the period from 11 March to 23 June 2020, the actual transaction amounts (unaudited) under the Shandong Lukang Agreement were as follows:-

Parties	Transaction Amount (RMB)
Purchase of products from Shandong Lukang	394,000
Sale of products and provision of services to Shandong Lukang	1,315,800
Total	1,709,800

The abovementioned actual transaction amounts have not exceeded the threshold under Rule 14A.76(1) of the Listing Rules.

PRICING POLICY

Products provided by Shandong Lukang

The prices and terms for each batch of purchase transactions from Shandong Lukang to the Company contemplated under the Shandong Lukang Agreement will be determined in the ordinary course of business of both parties on normal commercial terms and negotiated on arm's length basis between the parties thereto. In particular, the prices and terms will be determined: -

- (i) by taking reference to the prevailing market price of the same or substantially similar products announced by at least two independent third parties in the same period which offer the same or substantially similar products in the same or nearby areas through inquiries via websites; and
- (ii) by ensuring that in any event the price offered by Shandong Lukang will be no less favourable to the Company than those offered by independent third party suppliers to the Company in comparable transactions of the same period.

Products provided to Shandong Lukang

The prices and terms for each batch of purchase transactions from the Company to Shandong Lukang contemplated under the Shandong Lukang Agreement will be determined in the ordinary course of business of both parties on normal commercial terms and negotiated on arm's length basis between the parties thereto. In particular, the prices and terms will be determined:

- (i) by reference to the actual costs incurred plus a reasonable profit margin (with reference to the general range of profit in the industry). The Company will refer to the historical average price for the relevant products such as bulk drugs and pharmaceutical intermediaries (to the extent available) and/or profit margins of comparable products and services disclosed by at least two other listed companies to determine whether the profit margin charged is in line with the industry. The Company will also consider the demand and supply in the market and the urgency of the orders from Shandong Lukang at the relevant time in determining the final transaction price. Some companies publish profit margins of their principal goods and services on the Shanghai Stock Exchange, the Shenzhen Stock Exchange or domestic bond markets (including but not limited to the inter-bank market of the People's Republic of China operated by the National Association of Financial Market Institutional Investors), from which the Company is able to draw references. As information are categorised by the industry and the region in the PRC, the Company will select and refer to profit margins of comparable products and services in the same or nearby areas or in the PRC (to the extent available) to determine whether the profit margin charged is in line with the industry; and
- (ii) by ensuring that in any event the price offered by the Company will be no less favourable to the Company than those offered by the Company to independent third parties in comparable transactions of the same period.

Services provided to Shandong Lukang

The determination of the service fees chargeable to Shandong Lukang will be determined in the ordinary course of business of both parties on normal commercial terms and negotiated on arm's length basis between the parties thereto. In particular, the following factors will be taken into consideration in determining the relevant prices and terms::

- (i) the urgency of the proposed provision of services;
- (ii) the estimated man-hours and/or man-days of the human resources required to provide the relevant services;
- (iii) the size and complexity of the proposed provision of services; and
- (iv) the fees charged for historical transactions of similar nature.

INTERNAL CONTROLS

To ensure that the continuing connected transactions contemplated under the Shandong Lukang Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders, the Company has adopted the following internal control procedures:

- (i) The management of the Company will hold meetings to discuss and consider the terms and conditions and the pricing mechanism of each transaction contemplated under the Shandong Lukang Agreement before entering into such transactions to ensure that they are on normal commercial terms;
- (ii) The finance department of the Company is responsible for reviewing the relevant transactions on a monthly basis and submitting the relevant information to the Board for review, including but not limited to historical and actual transaction amounts, to ensure that the relevant transactions are conducted in accordance with the Shandong Lukang Agreement and that the annual cap is not exceeded and the pricing mechanism is effectively implemented; and
- (iii) The independent non-executive Directors and the auditors of the Company will conduct annual review on the continuing connected transactions contemplated under the Shandong Lukang Agreement to confirm that the pricing policy and annual cap remain fair and reasonable, and provide confirmation of the same annually in the annual report of the Company in accordance with the Listing Rules.

Save as stated above, all other information set out in the Announcement remains unchanged.

By Order of the Board

Shandong Xinhua Pharmaceutical Company Limited

Zhang Daiming

Chairman

30 June 2020, Zibo, 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