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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: 00719)

CONNECTED TRANSACTION

IN RELATION TO AN INVESTMENT AGREEMENT

Reference is made to the announcement of the Company dated 23 June 2020. Unless otherwise specified, capitalised terms used in this announcement shall have the same meanings as those defined in the abovementioned announcement.

INVESTMENT AGREEMENT

On 17 July 2020, the Company, Lianren Health, Yinfeng Xintai, Shandong Development, Shandong Energy, Shandong Financial, Futian Huayu, Shandong Lukang, Dareway Software, Shandong Guohui, Shandong Zhongyang and Shandong Buchang jointly entered into the Investment Agreement in relation to the proposed establishment of a limited liability company in the PRC.

LISTING RULES IMPLICATIONS

As at the date of this announcement, HHC is a controlling shareholder of the Company (as defined in the Listing Rules) and is directly and indirectly interested in approximately 36.96% of the entire issued share capital of the Company. Shandong Lukang is a subsidiary of HHC, and is therefore a connected person of the Company. Accordingly, the Investment Agreement and the transactions thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that all the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Investment Agreement exceed 0.1% but are less than 5%, the connected transactions thereunder are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules and are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements.

INTRODUCTION

Reference is made to the announcement of the Company dated 23 June 2020 in which the Board announced the possible connected transaction in relation to the Investment Agreement.

The Board is pleased to announce that on 17 July 2020, the Company entered into the Investment Agreement with the Investors.

THE INVESTMENT AGREEMENT

Incorporated in the Shanghai Free Trade Zone (Zhangjiang) in November 2019, Lianren Health is a big data company initiated by China Mobile. Lianren Health is proposing to establish a limited liability company in the PRC with a registered capital of RMB2.5 billion for the proposed purpose of operating a big data centre focusing on medical and healthcare-related fields, and therefore entered into the Investment Agreement with the Investors on 17 July 2020. The name of the aforementioned proposed company is currently intended to be “North Health and Medical Big Data Technology Co., Ltd.”* (北方健康醫療大數據科技有限公司) (“**North Health**”), which has been approved by the responsible Administration for Market Regulation.

The principal terms of the Investment Agreement are set out below:

Date

17 July 2020

Parties

1. The Company;
2. Lianren Health;
3. Yinfeng Xinbai
4. Shandong Development;
5. Shandong Energy;
6. Shandong Financial;
7. Futian Huayu;
8. Shandong Lukang;
9. Dareway Software;
10. Shandong Guohui;
11. Shandong Zhongyang; and
12. Shandong Buchang.

To the best knowledge, information and belief of the directors of the Company after having made all reasonable enquiries, except Shandong Lukang, all the other Investors and their respective ultimate beneficial owners are third parties independent from the Company and its connected persons.

Subscription of shares in North Health

The Investors’ subscription amount and proportionate interest in the registered capital of North Health

are as follows:

No.	Name of Investor	Subscription amount (RMB million)	Shareholding Percentage
1	The Company	100	4.00%
2	Lianren Health	1,215	48.60%
3	Yinfeng Xinbai	210	8.40%
4	Shandong Development	200	8.00%
5	Shandong Energy	200	8.00%
6	Shandong Financial	200	8.00%
7	Futian Huayu	125	5.00%
8	Shandong Lukang	100	4.00%
9	Dareway Software	75	3.00%
10	Shandong Guohui	25	1.00%
11	Shandong Zhongyang	25	1.00%
12	Shandong Buchang	25	1.00%
	Total	2,500	100%

Payment terms

Pursuant to the Investment Agreement, the registered capital of North Health shall be paid up in cash by each of the Investors, and upon (a) the completion of the industrial and commercial registration and obtaining of the business licence by North Health; (b) the official opening of the RMB account for subscription under the name of North Health; and (c) obtaining of the relevant government authorities' authorization for the establishment and operation of a national healthcare big data centre (the "**Authorization**"), each of the Investors shall contribute its respective subscribed amount to North Health by installments in accordance with the schedule below:

- (i) 30% of the subscription amount to be paid within 10 business days after the aforementioned condition (a), (b) and (c) are all fulfilled; and
- (ii) the remainder of the subscription amount to be paid within 5 years after the establishment of North Health, based on the actual capital requirements of North Health and within 10 business days upon the written notice issued by North Health. The subscription amount shall be proportional to the respective subscription amount of the Investors at the time of the written notice.

The Company's capital contribution to the registered capital of North Health is determined after arm's length negotiations between the Investors with reference to the proposed capital requirements of North Health and the Investors' proportionate interests therein, taking into account various factors including cash flow of the Company. The Company's capital contribution to North Health will be funded by its internal resources.

Scope of business of North Health

It is proposed that the principal business of North Health is the operation of a big data centre focusing on medical and healthcare-related fields, subject to the obtaining of the Authorization.

The proposed scope of business of North Health includes big data resources service; nutritional health advisory services; internet search services; information system integration services; house leasing;

property management; enterprise management consulting; medical research and experimental development; development, consultation, service, transfer and promotion of biotechnology, medical technology and gene testing technology; wholesale and retail: drugs, medical equipment, laboratory equipment, instrumentation, sanitation supplies; technical development, technical service, sales and maintenance of computer hardware and software and auxiliary equipment and electronic products; domestic advertising business; conference and exhibition services; telecommunications services, cloud storage services, cloud platform services, cloud software services, cloud infrastructure services, cloud computing services.

The actual scope of business of North Health will be subject to the business licence to be issued.

Board Composition of North Health

The Investment Agreement stipulates that (i) the board of directors of North Health shall comprise 9 directors; (ii) Lianren Health shall be entitled to nominate 5 directors while each of the Company, Shandong Energy, Shandong Financial and Yinfeng Xinbai shall be entitled to nominate 1 director respectively; (iii) the chairman of the board of directors of North Health shall be nominated by Lianren Health and elected by the majority of its all board members; and (iv) if the shareholding of any Investors in North Health is lower than 8%, such Investor shall no longer be entitled to nominate a director, in particular, when calculating the shareholding of the Company in North Health, such shareholding shall be aggregated with the shareholding of Shandong Lukang in North Health.

Lock-up Period

The shares subscribed by the Investors at the time of incorporation of North Health shall be subject to a lock-up period of 1 year from the date of such incorporation (the "**Lock-up Period**"), except for the transfer of shares to an entity under common control (excluding transfers to an entity under common control by the State-owned Assets Supervision and Administration Authority). During the Lock-up Period, each of the Investors shall not directly or indirectly sell, assign, transfer, pledge or otherwise dispose of its shares subscribed at the time of North Health's incorporation, and any such disposal shall be invalid.

Pre-emptive Rights in relation to the Transfer of Shares

Upon expiry of the Lock-up Period, if any Investor (the "**Transferor**") intends to sell all or part of the shares in North Health to a third party (including North Health's other Investors) (the "**Proposed Transfer**"), Lianren Health (not being the Transferor) shall be entitled to the right of first refusal under the same conditions in respect of the Proposed Transfer; and the remaining Investors (other than the Transferor and Lianren Health) shall be entitled to a second priority right to purchase under the same conditions, except for Proposed Transfer to an entity under common control. Where Lianren Health is the Transferor, all the remaining Investors (other than Lianren Health) shall be entitled to the priority right to purchase under the same conditions, except for the transfers made by Lianren Health to an entity under common control.

Termination

The Investment Agreement shall terminate prior to the incorporation of North Health upon any of the following events:

- (i) the Investors reach an agreement to terminate the Investment Agreement; or
- (ii) if the performance of the Investment Agreement is materially and adversely affected by the breach of an Investor, and the purpose of the Investment Agreement cannot be realized, all the non-breaching Investors may, upon reaching a consensus, terminate the Investment Agreement by sending a written notice to the breaching Investor.

The Investment Agreement shall terminate after the incorporation of North Health upon any of the following events:

- (i) the matters causing dissolution as specified under North Health's articles of association occur;
or
- (ii) if North Health fails to obtain the Authorization within 3 months after its establishment, or if the Authorization becomes invalid or unenforceable for any reason, the Investment Agreement may be terminated upon the passing of a special shareholders' resolution to dissolve North Health in a shareholders' meeting of North Health.

REASONS FOR AND BENEFITS OF THE CONNECTED TRANSACTION

As North Health is proposed to operate as a business group conducting healthcare-related big data business, North Health is expected to gradually integrate the healthcare-related data of people in the Northern region in the PRC on the basis of realizing connectivity in Shandong Province. By entering into the Investment Agreement, the Company will be able to gain access to the healthcare-related big data, which is expected to be conducive to the Company's product research and development, clinical development as well as e-commerce business.

The board of directors of the Company (the "**Board**") and the independent non-executive directors (excluding Mr. Zhang Daiming, Mr. Ren Fulong and Mr. Xu Lie, who are considered to have a material interest in the Investment Agreement due to their respective directorships or capacities as a member of the management of a subsidiary of HHC and were therefore required to abstain from voting on the relevant Board resolutions in relation to the Investment Agreement) have considered and reviewed the terms and provisions of the Investment Agreement, and are of the view that the Investment Agreement has been entered into on an arm's length basis and in the ordinary and usual course of business, and that the transactions thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

RELATIONSHIP BETWEEN THE CONNECTED PARTIES

HHC is a controlling shareholder of the Company and is directly and indirectly interested in approximately 36.96% of the entire issued share capital of the Company. Shandong Lukang is a subsidiary of HHC, and is therefore a connected person of the Company. Accordingly, the Investment Agreement and transactions thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

LISTING RULES IMPLICATIONS

As all the applicable percentage ratios (as defined under the Listing Rules) in respect of the Investment Agreement exceed 0.1% but are less than 5%, the connected transactions thereunder are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules and are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements.

INFORMATION OF THE PARTIES AND CONNECTED PERSONS

The Company

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.

HHC

HHC is a state-owned enterprise principally engaged in investment holding of various companies listed or not listed on the stock exchanges of the mainland China and Hong Kong.

Shandong Lukang

Shandong Lukang is a company incorporated in the PRC with limited liability and its principal businesses include, among others, manufacturing, processing and sale of chemical raw materials and preparations products for pharmaceutical production, auxiliary materials and intermediates, veterinary drugs, pharmaceutical packaging products and feed additives.

Lianren Health

Lianren Health is a company incorporated in the PRC with limited liability. It is principally engaged in the business of data processing services; basic software service; application software services; drug retail; property management; real estate brokers; real estate consulting; self-owned equipment leasing; enterprise management service; technology development in the field of medical science and technology, technology transfer, technical advice and services; computer information system integration; sales of medical apparatus and instruments; nutritional advisory services and insurance professional agents.

Yinfeng Xinbai

Yinfeng Xinbai is a company incorporated in the PRC with limited liability. It is principally engaged in the business of data processing technology, computer software and hardware, technical services, technology development, technology consulting, transfer and promotion in relation to Internet of Things; medical technology consulting; enterprise management consulting; commerce information consulting; economic and trading consulting; financial consulting; tax services; conferencing and exhibition services; marketing planning; corporate image planning; market research; advertising design, agency and production; intellectual property services; domestic trade agents; and import and export of goods and technologies.

Shandong Development

Shandong Development is a company incorporated in the PRC with limited liability. It is principally engaged in investment and management (excluding sectors restricted by laws and regulations); capital operation; asset management and trusteeship; and investment consulting.

Shandong Energy

Shandong Energy is a company incorporated in the PRC with limited liability. It is principally engaged in the business of investing in the healthcare sector.

Shandong Financial

Shandong Financial is a company incorporated in the PRC with limited liability. It is principally engaged in the business of operating state assets and investment management.

Futian Huayu

Futian Huayu is a company incorporated in the PRC with limited liability. It is principally engaged in the business of design, processing, wholesale, retail and repair of jewellery, handicrafts, watches and

clocks and commemorative coins made of precious metals; and technology development and technical consulting in relation to gold, gold products and jewellery.

Dareway Software

Dareway Software is a company incorporated in the PRC with limited liability. Its principal business includes development, production and sale of computer software and hardware products and related technical services.

Shandong Guohui

Shandong Guohui is a company incorporated in the PRC with limited liability. It is principally engaged in the business of equity investment, project investment and asset management.

Shandong Zhongyang

Shandong Zhongyang is a company incorporated in the PRC with limited liability. Its principal business includes technology development, technology transfer, consulting and technical services in the field of health-related technology.

Shandong Buchang

Shandong Buchang is a company incorporated in the PRC with limited liability. Its principal scope of business includes production and sales of tablets, hard capsules, granules, pills (honey pills, concentrated pills, water pills, and water honey pills) and oral liquids.

In case of any inconsistencies, the Chinese text of this announcement shall prevail over the English text.

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

17 July 2020, Zibo, the PRC

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

Executive Directors:

Mr. Zhang Daiming (Chairman)
Mr. Du Deping

Non-executive Directors:

Mr. Ren Fulong
Mr. Xu Lie

Independent Non-executive Directors:

Mr. Li Wenming
Mr. Du Guanhua
Mr. Lo Wah Wai

**For identification purposes only. In case of any inconsistencies, the Chinese text of the company name shall prevail.*