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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)

- (1) PROPOSED NON-PUBLIC ISSUANCE OF NEW A SHARES;**
- (2) CONNECTED TRANSACTION IN RELATION TO THE PROPOSED SUBSCRIPTION OF A SHARES BY HUALU INVESTMENT;**
- (3) APPLICATION FOR WHITEWASH WAIVER; AND**
- (4) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION**

**PROPOSED NON-PUBLIC ISSUANCE OF A SHARES**

The Board announces that on 14 April 2021, the Board approved a proposed non-public issuance of A Shares, and the Company entered into the A Shares Subscription Agreement with Hualu Investment, pursuant to which the Company will, subject to the satisfaction of the conditions precedent as disclosed below, issue 36,284,470 A Shares (representing approximately 5.78% of the total existing number of Shares in issue) to Hualu Investment for a cash issue price of RMB6.89 per A Share. The total funds expected to be raised (before expenses) will amount to RMB250,000,000 (subject to regulatory approval).

The issue price of the A Shares to be issued under the Proposed A Shares Issue of RMB6.89 is: (i) not less than 80% of the average trading price of the A Shares over the 20 trading days preceding the Pricing Benchmark Date (i.e. 15 April 2021, being one day after the date on which the Board approved the Proposed A Shares Issue at the 2nd extraordinary meeting of the 10th session of the Board; and the average trading price of the A Shares over the 20 trading days preceding the Pricing Benchmark Date equals the total trading turnover of A Shares traded in the 20 trading days preceding the Pricing Benchmark Date, divided by the total volume of A Shares traded in those 20 trading days); or (ii) not less than the unaudited net asset value per share attributable to the holders of ordinary shares of the parent company at the end of the Company's most recent financial year prior to the Pricing Benchmark Date, whichever is higher (rounded up to 2 decimal places).

The number of A Shares to be issued under the Proposed A Shares Issue, being 36,284,470 A Shares, represents (i) approximately 8.39% of the existing number of A Shares in issue as at the date of this announcement, and approximately 5.78% of the existing total number of Shares in issue as at the date of this announcement; and (ii) approximately 7.74% of the number of A Shares in issue and approximately 5.47% of the total number of Shares in issue, in each case as enlarged by the number of A Shares to be issued upon completion of the Proposed A Shares Issue.

The Company will issue the A Shares under the Specific Mandate to be sought from the Independent Shareholders at the AGM and the Class Meetings. The Proposed A Shares Issue is subject to, among other conditions precedent, the approval of the relevant state-owned assets supervision and administration authorities and the CSRC, the grant of the Whitewash Waiver by the SFC, and the approval by the Independent Shareholders of the Proposed A Shares Issue and the Whitewash Waiver at the AGM and the Class Meetings, and the approval by the Independent Shareholders of the connected transactions involved in the Proposed A Share Issue.

#### **IMPLICATIONS UNDER THE LISTING RULES**

Hualu Investment is the wholly owned subsidiary of HHC, which is the controlling shareholder of the Company's, holding approximately 36.63% of the total number of Shares of the Company in issue as at the date of this announcement. Therefore, Hualu Investment is a connected person of the Company under the Listing Rules. The Proposed A Shares Issue constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Specific Mandate is sought from the Shareholders as required under Rule 13.36 of the Listing Rules, as modified by Chapter 19A of the Listing Rules.

#### **IMPLICATIONS UNDER THE TAKEOVERS CODE – APPLICATION FOR WHITEWASH WAIVER**

Upon completion of the Proposed A Shares Issue, HHC's shareholding of the Company is expected to increase from approximately 36.63% to approximately 40.10%. In the absence of an applicable waiver, completion of the Proposed A Shares Issue will give rise to an obligation on the part of HHC to make a mandatory offer for all the Shares other than those already owned or agreed to be acquired by it under Rule 26.1 of the Takeovers Code. HHC will apply to the Executive for Whitewash Waiver from compliance with the obligation to make a mandatory offer under Rule 26.1 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, is expected to be subject to, among other things, the approval of the Whitewash Waiver by at least 75% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the AGM, and the approval of the Proposed A Shares Issue and the A Shares Subscription Agreement by more than 50% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the AGM as required under the Takeovers Code. Further, under the Articles, the Proposed A Shares Issue and the A Shares Subscription Agreement will have to be approved by at least two-thirds of the votes cast on a poll by the Independent Shareholders at each of the AGM, the A Shares Class Meeting and the H Shares Class Meeting. The Proposed A Shares Issue will not proceed if the Whitewash Waiver is not granted by the Executive or the Proposed A Shares Issue is not approved by the Independent Shareholders at the AGM and the Class Meetings or the Whitewash Waiver is not approved by the Independent Shareholders at the AGM.

#### **ESTABLISHMENT OF CODE INDEPENDENT BOARD COMMITTEE AND LISTING RULES INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER**

The Code Independent Board Committee (comprising Mr. Xu Lie, a non-executive Director, and Mr. Pan Guangcheng Mr. Zhu Jianwei and Mr. Lo Wah Wai, being all the independent non-executive Directors) has been formed in accordance with Rule 2.8 of the Takeovers Code

to advise the Independent Shareholders on the Proposed A Shares Issue, the Specific Mandate and the Whitewash Waiver.

The Listing Rules Independent Board Committee (comprising Mr. Pan Guangcheng Mr. Zhu Jianwei and Mr. Lo Wah Wai, being all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Proposed A Shares Issue and the Specific Mandate..

The Independent Financial Adviser will be appointed to advise the Listing Rules Independent Board Committee, the Code Independent Board Committee and the Independent Shareholders in relation to the Proposed A Shares Issue and the Whitewash Waiver. An announcement will be published by the Company upon the appointment of the Independent Financial Adviser.

### **AGM AND CLASS MEETINGS**

The AGM will be convened to consider, and if thought fit, approve, among others, (i) the Proposed A Shares Issue; (ii) the Specific Mandate; (iii) the Whitewash Waiver; and (iv) the proposed amendments to the Articles.

The Class Meetings will be convened to consider and, if thought fit, approve (i) the Proposed A Shares Issue; and (ii) the Specific Mandate.

HHC, its associates and parties acting in concert with it (including Hualu Investment and Well Bring) and those who are involved in or interested in the Proposed A Shares Issue or the Whitewash Waiver will be required to abstain from voting on the corresponding resolutions to be proposed at the AGM and/or the Class Meetings.

### **OTHER INFORMATION**

Shareholders' attention is also drawn to the overseas regulatory announcement dated 14 April 2021 issued by the Company in relation to the proposed non-public issuance of A Shares by the Company.

### **GENERAL**

A circular containing, among other things, (i) details of the Proposed A Shares Issue, the Specific Mandate and the Whitewash Waiver; (ii) a letter from the Listing Rules Independent Board Committee, a letter from the Code Independent Board Committee and a letter of advice from the Independent Financial Adviser; and (iii) the notice of AGM and Class Meetings is expected to be despatched to the Shareholders on or before 5 May 2021 in accordance with the applicable Listing Rules and Takeovers Code.

**The completion of the Proposed A Shares Issue is subject to the satisfaction of certain conditions, including but not limited to, the grant of the Whitewash Waiver by the Executive, which may or may not be granted by the Executive. The granting of the Whitewash Waiver is a non-waivable condition precedent to the A Shares Subscription Agreement. Accordingly, the Proposed A Shares Issue may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

## **PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER SPECIFIC MANDATE**

On 14 April 2021, the Board approved the Proposed A Shares Issue and the Company entered into the A Shares Subscription Agreement with Hualu Investment, pursuant to which the Company will, subject to the satisfaction of the conditions precedent, issue 36,284,470 A Shares (representing not more than 30% of the total existing number of Shares in issue) to Hualu Investment for a cash issue price of RMB6.89 per A Share. The total funds expected to be raised (before expenses) will amount to approximately RMB250,000,000 (subject to regulatory approval).

The A Shares to be issued under the Proposed A Shares Issue will be issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the AGM and the Class Meetings.

The details of the Proposed A Shares Issue are set out below.

### **Structure of the Proposed A Share Issue**

**Class and par value of Shares to be issued :** New A Shares with a par value of RMB1.00 each

**Number of A Shares to be issued :** Subject to the satisfaction of the conditions precedent (as disclosed below), 36,284,470 new A Shares will be issued under the Proposed A Shares Issue, which represent:

- (i) approximately 8.39% of the existing number of A Shares in issue as at the date of this announcement, and approximately 5.78% of the existing total number of Shares in issue as at the date of this announcement; and
- (ii) approximately 7.74% of the number of A Shares in issue and approximately 5.47% of the total number of Shares in issue, in each case as enlarged by the number of A Shares to be issued upon the completion of the Proposed A Shares Issue.

The number of A Shares to be issued under the Proposed A Shares Issue (being 36,284,470 A Shares) is arrived at by dividing the total amount of funds to be raised by the Company thereunder (being approximately RMB250,000,000) by the issue price per A Share to be determined based on the principles as set out in the paragraph headed “Issue price, Pricing Benchmark Date and pricing principles” in this Announcement. Provided that such number of A Shares to be issued shall not be more than 30% of the total existing number of Shares in issue, the final number of A Shares to be issued under the Proposed A Shares Issue will be determined by negotiation between the Board and the sponsor (lead underwriter) in accordance with the relevant requirements of the CSRC and the mandates approved in the AGM.

The number of A Shares to be issued under the Proposed A

Shares issue will be adjusted if, during the period from the Pricing Benchmark Date to the Issuance Date, any event which may alter the total number of Shares of the Company, such as dividend distribution, issue of bonus shares, conversion of capital reserve into share capital, or placing of shares, occurs.

**Subscriber and method of subscription :** The subscriber is Hualu Investment, which will subscribe for all the A Shares to be issued under the Proposed A Shares Issue by way of cash in RMB.

**Method and time of issue :** The Proposed A Share Issue will be carried out by way of non-public issuance of A Shares to Hualu Investment. Subject to the satisfaction of all the conditions precedent, the Company will complete the Proposed A Shares Issue after obtaining the approval from the CSRC within its validity period.

**Issue price, Pricing Benchmark Date and pricing principles :** The issue price of the A Shares to be issued under the Proposed A Shares Issue of RMB6.89 is: (i) not less than 80% of the average trading price of the A Shares over the 20 trading days preceding the Pricing Benchmark Date (i.e. 15 April 2021, being one day after the date on which the Board approved the Proposed A Shares Issue at the 2nd extraordinary meeting of the 10th session of the Board; and the average trading price of the A Shares over the 20 trading days preceding the Pricing Benchmark Date equals the total trading turnover of A Shares traded in the 20 trading days preceding the Pricing Benchmark Date, divided by the total volume of A Shares traded in those 20 trading days); or (ii) not less than the unaudited net asset value per share attributable to the holders of ordinary shares of the parent company at the end of the Company's most recent financial year prior to the Pricing Benchmark Date, whichever is higher (rounded up to 2 decimal places).

If, during the period from the Pricing Benchmark Date to the Issuance Date, any ex-right and ex-dividend event such as dividend distribution, issue of bonus shares or conversion of capital reserve into share capital occurs, the issue price shall be adjusted accordingly based on the following formula:

Cash distribution:  $P1 = P0 - D$

Issue of bonus shares or conversion of capital reserve into share capital:  $P1 = P0 / (1 + N)$

Cash distribution and issue of bonus shares or conversion of capital reserve into share capital take place simultaneously:

$$P1 = (P0 - D)/(1 + N)$$

where:

- (i) P0 denotes the issue price before adjustment;
- (ii) D denotes the amount of cash to be distributed per Share;
- (iii) N denotes the number of Shares to be distributed as bonus or converted from the capital reserve per Share; and
- (iv) P1 denotes the new issue price after adjustment.

The above adjustment is made based on the requirement under Rule 12 of the “Implementation Rules for Non-public Issuance of Shares by Listed Companies” (《上市公司非公开发售股票实施细则》) promulgated by the CSRC. The Board shall also resolve to determine whether the issue size shall be adjusted accordingly in case of ex-dividend or ex-rights activities in respect of the shares of the Company during the period from the date of resolution by the Board to the date of issuance. CSRC will consider and approve the above adjustment as a part of the proposal for Proposed A Shares Issue. In other words, CSRC will not consider and approve such adjustment on a standalone basis.

**Conditions precedent for the A Shares Subscription Agreement to take effect:**

The A Shares Subscription Agreement is conditional upon the following conditions and will take effect when all those conditions have been satisfied:

1. in accordance with the relevant laws and the Articles, the approval of the plan of the Proposed A Shares Issue and related matters has been obtained at the Board meeting, AGM and the Class Meetings;
2. the approval of the Whitewash Waiver by the Independent Shareholders at the AGM in accordance with the requirements of the Takeovers Code and approval of a waiver in respect of the general offer obligation over the A Shares by Hualu Investment and the parties acting in concert with it to be triggered as a result of the Proposed A Shares Issue under the relevant laws and regulations in the PRC;

3. the approval from the relevant state-owned assets supervision and administration authorities for the Proposed A Shares Issue has been obtained;
4. the approval from the CSRC for the Proposed A Shares Issue has been obtained; and
5. the grant of the Whitewash Waiver by the SFC to Hualu Investment and the parties acting in concert with it in accordance with the Takeovers Code.

All of the conditions precedent in items 1 to 5 above are non-waivable.

In relation to condition (2) above, the Proposed A Shares Issue complies with section 63 of the Measures for the Administration of the Takeover of Listed Companies (《上市公司收購管理辦法》) and the relevant rules regarding the exemptions from submitting a general offer waiver application to CSRC. Upon passing of the requisite resolution at the AGM approving the waiver in respect of the general offer obligation over the A Shares by HHC to be triggered as a result of the Proposed A Shares Issue, HHC is exempted from submitting an application for waiver from the general offer obligation to CSRC.

As at the date of this announcement, the approval from the Board for the Proposed A Shares Issue has been obtained. All other conditions under the A Shares Subscription Agreement have not been fulfilled.

Under the Listing Rules, the resolutions for the approval of the Proposed A Shares Issue, the A Shares Subscription Agreement and the Specific Mandate are required to be approved by a simple majority of the votes that are cast either in person or by proxy by the Independent Shareholders at the AGM, the A Shares Class Meeting and the H Shares Class Meeting.

The Whitewash Waiver, if granted by the Executive, is expected to be subject to, among other things, the approval of the Whitewash Waiver by at least 75% of the independent votes that are cast either in person or by proxy at the AGM, and the approval of the Proposed A Shares Issue and the A Shares Subscription Agreement by more than 50% of the independent votes that are cast either in person or by proxy at the AGM as required under the Takeovers Code. Further, under the Articles, the Proposed A Shares Issue and the A Shares Subscription Agreement will have to be approved by at least two-thirds of the votes cast on a poll by the Independent Shareholders at each of

the AGM, the A Shares Class Meeting and the H Shares Class Meeting.

**Lock-up period** : Hualu Investment shall not transfer the A Shares subscribed for under the Proposed A Shares Issue within 36 months from the date of completion of the Proposed A Shares Issue.

The above lock-up arrangement shall also apply to Shares derived from the A Shares subscribed by Hualu Investment under the Proposed A Shares Issue due to methods such as distribution of stock dividend and conversion of capital reserves to share capital.

**Total funds to be raised and used:** The total funds expected to be raised from the Proposed A Shares Issue (before issue expenses) will amount to RMB250,000,000 (subject to regulatory approval).

The proceeds from the Proposed A Shares Issue are intended to be used for repaying interest-bearing liabilities and supplementing the working capital after deducting the issuance expenses.

**Termination of the A Shares Subscription Agreement:** The A Shares Subscription Agreement shall be terminated under one of the following circumstances:

1. due to major changes in circumstances from an objective perspective, both parties enter into a written agreement to terminate the A Shares Subscription Agreement before full performance of the A Shares Subscription Agreement;
2. either party is unable to continue to perform the A Shares Subscription Agreement due to its closure of business or revocation of its business license by competent administrative authorities due to violation of laws and regulations;
3. either party is declared bankrupt by PRC's courts;
4. due to objections to the contents and performance of the A Shares Subscription Agreement raised by competent government authorities, securities registration or trading authorities or judicial authorities, resulting in the termination, cancellation, being deemed as invalid of the A Shares Subscription Agreement, or resulting in the important principles and provisions of the A Shares Subscription Agreement not being able to be fulfilled which will seriously affect the Company's commercial purpose at the time of entering into the A Shares Subscription Agreement;



5. any change in the laws, administrative regulations and normative documents on which the A Shares Subscription Agreement is based on, resulting in the main contents of the A Shares Subscription Agreement to be inconsistent with relevant provisions, or either party is unable to perform its main contractual obligations due to national policies or orders; and

6. due to force majeure, both parties reach a consensus and decide to terminate the A Shares Subscription Agreement through negotiation.

**Place of listing** : The new A Shares to be issued under the Proposed A Shares Issue will be listed on the SZSE. The Company will apply to the SZSE for the listing of, and permission to deal in, the new A Shares.

**Validity period of the resolution:** : The resolution regarding the Proposed A Shares Issue shall be valid for 12 months from the date of the passing at the AGM and the Class Meetings.

**Specific Mandate of the issuance of A Shares:** : The Company will issue the A Shares under the Specific Mandate which is proposed to be granted to the Board at the AGM and the Class Meetings.

**Rights of the A Shares to be issued:** : The A Shares to be issued pursuant to the Proposed A Shares Issue, when fully paid and issued, will rank *pari passu* in all respects amongst themselves and with the A Shares in issue at the time of the issue of such A Shares.

**Distribution of profit:** : The retained profits prior to the Proposed A Shares Issue will be shared by the new and existing Shareholders in proportion to the number of Shares held upon completion of the Proposed A Shares Issue.

## **UNDERTAKINGS OF HHC AND DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY**

HHC has undertaken: :

1. not to act beyond its powers to interfere with the Company's operating and management activities or misappropriate the Company's interests;
2. that from the date of issuance of this undertaking to the completion of the Company's Proposed A Shares Issue, if the state and securities regulatory authorities make other new regulatory requirements on measures for listed companies to compensate the diluted current returns, and this undertaking cannot meet the requirements of the state and securities

regulations, it promises to issue an undertaking in accordance with the latest regulations of the state and securities regulatory authorities; and

3. to effectively fulfil its commitments and that it is willing to compensate the Company or investors in accordance with laws if there is any loss incurred due to breach of such undertaking.

Each of the Directors and senior management of the Company has undertaken:

1. not to direct benefits to other units or individuals for free or with unfair conditions, and not to harm the Company's interests in any other manner;
2. to control work-related spending;
3. not to utilise the Company's assets for any investment or consumption activities not pertaining to the performance of his duties;
4. that the remuneration policy formulated by the Board or the remuneration committee will be correlated to the implementation of the Company's measures to compensate the diluted current returns;
5. that if the Company implements equity incentives in future, the vesting conditions for the equity incentives will be correlated to the implementation of the Company's measures to compensate the diluted current returns;
6. that from the date of issuance of this undertaking to the completion of the Company's Proposed A Shares Issue, if the state and securities regulatory authorities make other new regulatory requirements on measures for listed companies to compensate the diluted current returns, and this undertaking cannot meet the requirements of the state and securities regulations, he promises to issue an undertaking in accordance with the latest regulations of the state and securities regulatory authorities; and
7. in case of violation of this undertaking or refusal to fulfill this undertaking, he agrees that the state or securities regulatory authorities can impose relevant penalties or take relevant regulatory measures in accordance with the relevant regulations and rules formulated or issued by them.

## **REASONS FOR AND BENEFITS OF THE PROPOSED A SHARES ISSUE**

### **1. Enhancing capital strength to ensure capital needs for the Company's development**

In 2018, 2019 and 2020, the operating revenue of the Company was approximately RMB5.245 billion, RMB5.606 billion and RMB6.006 billion respectively, with a compound annual growth rate of 9.76%. With the continuous expansion of the Company's business scale, the Company's demand for working capital will continue to grow.

The Company appears in the pharmaceutical manufacturing industry, and its business involves chemical APIs, preparations, pharmaceutical intermediates and other fields. It has higher requirements for production, circulation and management. The Company has continuous demand for the purchase, maintenance and reconstruction of fixed assets and projects under construction, and the annual expenditure is relatively high. The industry that the Company appears in is a technology-intensive industry. In order to maintain the competitive edge and the capabilities of

sustainable development, the Company needs to continue to increase investment in research and development and technology improvement. In addition, in order to further expand and optimize the Company's position in contract manufacture organization and contract research organization and other business areas, the Company will also increase its research and development expenditure in the future. With the steady development of the Company's business, there will be increasing working capital requirements. Raising funds to supplement its working capital through the Proposed A Shares Issue will be conducive to the Company in terms of facilitating resources integration, accelerating the Company's development strategy and strengthening the foundation of sustainable development for the purposes of laying a solid foundation for the healthy, stable and sustainable development of the Company to maximize Shareholders' interests.

## **2. Optimizing the asset structure and improving the ability to resist risks**

As of March 31, 2021, the Company's combined asset-liability ratio was 51.43%, considerably higher than the average of listed companies in the same industry. The ability to expand the size of the Company's business is limited to a certain extent by the Company's overall capital and debt position. In addition, changes in external environment such as COVID-19 pandemic and international trade friction have a great impact on various industries. Specifically, in the pharmaceutical industry, higher requirements in relation to the robustness of its capital structure, business risk resistance ability and operational flexibility have been demanded. After the funds raised by the non-public offering are received, the Company's capital will be increased; its asset-liability ratio will be reduced; its working capital will be supplemented; and its capital structure will be optimized. As a result, the Company's financial position will be further improved, financial risks will be reduced, and the ability to withstand risk will be enhanced.

Against the background of the impact of the COVID-19 pandemic on the global macro-economy and on the economy of the PRC, the Proposed A Shares Issue will strengthen the Company's capital base to support the growth and development of the business of the Group in the future. The subscriber of the new A Shares to be issued under the Proposed A Shares Issue is Hualu Investment, which is a wholly-owned subsidiary of HHC, the controlling Shareholder of the Company and such subscription reflects the support and confidence of the controlling shareholder of the Company, which is crucial for the long-term development of the Group. As compared to placing new Shares to independent third parties, the non-public issuance of A Shares under the Proposed A Shares Issue provides an efficient means of raising capital for the Company's present and future needs, as well as reinforcing the Group's ties with its controlling shareholder. Further, the issue price for the new A Shares to be issued was set in accordance with the "Administrative Measures for the Issuance of Securities by Listed Companies" (《上市公司證券發行管理辦法》). Therefore, the Directors (excluding members of the Listing Rules Independent Board Committee and Code Independent Board Committee) believe that the terms of the A Shares Subscription Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

Further, the independent non-executive Directors preliminarily believe that, subject to obtaining the Independent Financial Adviser's opinion:

1. the Proposed A Shares Issue complies with the relevant laws, rules and other regulations such as the "Company Law of the People's Republic of China" (《中華人民共和國公司法》), "Securities Law of the People's Republic of China" (《中華人民共和國證券法》), "Administrative Measures for the Issuance of Securities by Listed Companies" (《上市公司證券發行管理辦法》) and "Implementation Rules for Non-public Issuance of Shares by Listed Companies" (《上市公司非公開發行股票實施細則》). The Proposed A Shares

Issue is acceptable and feasible, and is in line with the Company's long-term development plan and in the interests of Shareholders as a whole, and there are no circumstances which may harm the interests of the Company and its Shareholders;

2. the reasons for the Proposed A Shares Issue are valid and sufficient, the pricing principles and methods are appropriate and acceptable, and all necessary internal decision-making procedures for the Proposed A Shares Issue will be complied with. The Proposed A Shares Issue does not violate the principles of openness, impartiality and equality, and there are no circumstances which may harm the interests of the Company and its Shareholders, in particular the minority Shareholders; and
3. the terms and signing procedures of the A Shares Subscription Agreement comply with the laws, rules and other regulatory documents, and there are no circumstances which may harm the interests of the Company and its Shareholders as a whole.

### **EFFECT OF SHAREHOLDING STRUCTURE OF THE COMPANY OF THE PROPOSED A SHARES ISSUE**

The following sets out the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after completion of the Proposed A Shares Issue (assuming no other change in the number of issued shares in the Company):

Shareholders	As at the date of this announcement		Immediately after the completion of the proposed A Shares Issue		Immediately after the completion of the proposed A Shares Issue and exercise of all outstanding Share Options	
	Number of Shares held	Approximate percentage of all issued Shares	Number of Shares held	Approximate percentage of all issued Shares	Number of Shares held	Approximate percentage of all issued Shares
<u>A Shares:</u>						
HHC	204,864,092	32.65%	204,864,092	30.87%	204,864,092	30.38%
Hualu	4,143,168	0.66%	40,427,638	6.09%	40,427,638	6.00%
Investment Public A Share Shareholders and Shareholders under the Share Option Scheme of the Company	223,360,187	35.60%	223,360,187	33.66%	234,052,187	34.71%
<b><u>Subtotal</u></b>	<b>432,367,447</b>	<b>68.92%</b>	<b>468,651,917</b>	<b>70.62%</b>	<b>479,343,917</b>	<b>71.08%</b>
<u>H Shares:</u>						
Well Bring	20,827,800	3.32%	20,827,800	3.14%	20,827,800	3.09%
Public H Share Shareholders	174,172,200	27.76%	174,172,200	26.24%	174,172,200	25.83%
<b><u>Subtotal</u></b>	<b>195,000,000</b>	<b>31.08%</b>	<b>195,000,000</b>	<b>29.38%</b>	<b>195,000,000</b>	<b>28.92%</b>
<u>Total Issued Shares:</u>						
HHC and parties acting in concert with it	229,835,060	36.63%	266,119,530	40.10%	266,119,530	39.46%
Public Share Shareholders and	397,532,387	63.37%	397,532,387	59.90%	408,224,387	60.54%

Shareholders  
under the Share  
Option Scheme  
of the  
Company

<b><u>Total number of Shares in issue</u></b>	<b><u>627,367,447</u></b>	<b><u>100%</u></b>	<b><u>663,651,917</u></b>	<b><u>100%</u></b>	<b><u>674,343,917</u></b>	<b><u>100%</u></b>
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Note: The percentages shown are rounded to the nearest 2 decimal places. Number may not add up to 100% due to rounding.

As shown in the above table, the total shareholding interest held by HHC (itself and through its directly or indirectly wholly-owned subsidiaries) in the Company immediately before and after the Proposed A Shares Issue are approximately 36.63% and approximately 40.10% respectively.

## **SECURITIES OF THE COMPANY**

As at the date of this announcement, the Company has 627,367,447 Shares in issue, comprising 432,367,447 A Shares and 195,000,000 H Shares and 10,692,000 outstanding Share Options. Save as aforesaid, the Company has no other outstanding shares, options, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) that carry a right to subscribe for or which are convertible into Shares.

## **FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS**

Save for the 5,508,000 new A Shares issued upon the exercise of the Share Options, the Company has not carried out any fund raising exercises through issue of any equity securities during the 12 months immediately preceding the date of this announcement.

## **PROPOSED AMENDMENTS TO THE ARTICLES**

In the light of the Proposed A Shares Issue, the Articles of the Company will need to be amended in accordance with the relevant laws and regulations.

The Board proposes to seek from the Shareholders at the AGM the relevant authorisation to the Board to make corresponding adjustments and amendments to the Articles (including but not limited to adjustments and amendments to the wording, sections, terms, conditions of effect and others) based on the results and the actual conditions of the Proposed A Shares Issue, and to make corresponding adjustments and amendments to the content of the Articles relating to registered capital and share capital structure upon completion of the Proposed A Shares Issue.

The proposal regarding the relevant authorisation to the Articles will be submitted to the AGM for consideration and approval by way of special resolution.

## **IMPLICATIONS UNDER THE LISTING RULES**

Hualu Investment is a wholly-owned subsidiary of HHC, which is the controlling shareholder holding approximately 36.63% of the total number of Shares of the Company in issue as at the date of this announcement. Therefore, Hualu Investment is a connected person of the Company under the Listing Rules. The Proposed A Shares Issue constitutes a connected transaction of the Company and is subject to reporting, announcement and independent shareholders' approval requirements

under Chapter 14A of the Listing Rules.

Mr. Cong Kechun, being a Director, due to his directorships or capacities as a member of the management of HHC, is therefore considered to be materially interested in the relevant board resolutions to approve the Proposed A Shares Issue. Accordingly, Mr. Cong Kechun has abstained from voting on the Board resolutions to approve the Proposed A Shares Issue. Save and except for the aforesaid, none of the Directors has any material interest in any of the Proposed A Shares Issue and hence no other Director has abstained on voting such Board resolutions.

The Specific Mandate is sought from the shareholders of the Company as required under Rule 13.36 of the Listing Rules, as modified by Chapter 19A of the Listing Rules.

### **IMPLICATIONS UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITEWASH WAIVER**

As at the date of this announcement, HHC holds 209,007,260 A Shares (itself and through Hualu Investment) and 20,827,800 H Shares, (itself and through Well Bring) representing approximately 36.63% of the total issued share capital of the Company. Upon completion of the Proposed A Shares Issue, HHC's aggregate shareholding in the Company is expected to increase from approximately 36.63% to approximately 40.10%. In the absence of an applicable waiver, the Proposed A Shares Issue will give rise to an obligation on the part of HHC to make a mandatory offer for all the Shares in issue other than those already owned or agreed to be acquired by it under Rule 26.1 of the Takeovers Code.

HHC will apply for the Whitewash Waiver from compliance with Rule 26.1 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, is expected to be subject to, among other things, the approval of the Whitewash Waiver by at least 75% of the independent votes that are cast either in person or by proxy at the AGM, and the approval of the Proposed A Shares Issue and the A Shares Subscription Agreement by more than 50% of the independent votes that are cast either in person or by proxy at the AGM as required under the Takeovers Code. Further, under the Articles, the Proposed A Shares Issue and the A Shares Subscription Agreement will have to be approved by at least two-thirds of the votes cast on a poll by the Independent Shareholders at each of the AGM, the A Shares Class Meeting and the H Shares Class Meeting. The Proposed A Shares Issue will not proceed if the Whitewash Waiver is not granted by the Executive or the Proposed A Shares Issue is not approved by the Independent Shareholders at the AGM and the Class Meetings, or if the Whitewash Waiver is not approved by at least 75% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the AGM.

As at the date of this announcement, the Company does not believe that the Proposed A Shares Issue gives rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the release of this announcement, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible but in any event before the despatch of the circular in respect of the Whitewash Waiver. The Company notes that the Executive may not grant the Whitewash Waiver if the Proposed A Shares Issue does not comply with other applicable rules and regulations. HHC, its associates and parties acting in concert with it (including Hualu Investment and Well Bring) and those who are involved in or interested in the Proposed A Shares Issue and/or the Whitewash Waiver will be required to abstain from voting in respect of the resolution(s) to approve the Proposed A Shares Issue and the Whitewash Waiver at the AGM and the Class Meetings (as the case may be).

Prior to the Proposed A Shares Issue, HHC, which is the existing controlling shareholder of the Company, holds 36.63% of the total number of Shares of the Company in issue. Immediately upon the completion of the Proposed A Shares Issue, assuming no other change in the number of issued shares in the Company, HHC will remain as a controlling shareholder of the Company. The Proposed A Shares Issue will not result in a change in controlling shareholder of the Company.

#### **ADDITIONAL DISCLOSURE OF INTEREST**

As at the date of this announcement, other than the A Shares to be subscribed for by HHC pursuant to the A Shares Subscription Agreement and the Shares currently held by HHC in aggregate, HHC confirms that:

- (i) none of HHC or parties acting in concert with it has dealt in any Shares, acquired or entered into any agreement to acquire any voting rights in the Company within the six months immediately prior to the date of this announcement;
- (ii) none of HHC or parties acting in concert with it will make any acquisitions or disposals of voting rights in the Company in the period between this announcement and the completion of the Proposed A Shares Issue;
- (iii) there is no holding of voting rights in the Company or rights over any Shares which is owned, controlled or directed by HHC or any person acting in concert with HHC;
- (iv) none of HHC or parties acting in concert with it has received any irrevocable commitment from any person to vote for or against the resolutions to be proposed at the AGM to approve the Proposed A Shares Issue and/or the Whitewash Waiver;
- (v) HHC and parties acting in concert with it do not hold any outstanding options, warrants, derivatives or any securities that are convertible into Shares or any derivatives in respect of securities in the Company;
- (vi) there is no outstanding derivative in respect of the securities of the Company which has been entered into by any of HHC and parties acting in concert with it;
- (vii) save for the Proposed A Shares Issue, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares or shares of any of HHC and parties acting in concert with it and which might be material to the transactions contemplated under the Proposed A Shares Issue or the Whitewash Waiver;
- (viii) save for the aggregate subscription price payable under the A Shares Subscription Agreement, none of HHC or parties acting in concert with it has paid or will pay any other considerations, compensations or benefits in whatever form to the Company or any parties acting in concert with it in relation to the A Shares Issue;
- (ix) none of HHC or parties acting in concert with it has entered into any understanding, arrangement, agreement which constitutes special deal (as defined under Rule 25 of the Takeovers Code) with any of the Shareholders;
- (x) none of the Company, its subsidiaries or associated companies has entered into any understanding, agreement, arrangement which constitutes special deal (as defined under Rule 25 of the Takeovers Code) with any of the Shareholders;

- (xi) save for the A Shares Subscription Agreement, there are no agreements or arrangements to which HHC is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition under the Proposed A Shares Issue or the Whitewash Waiver; and
- (xii) none of HHC or parties acting in concert with it has borrowed or lent any Shares or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

#### **ESTABLISHMENT OF CODE INDEPENDENT BOARD COMMITTEE AND LISTING RULES INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER**

Pursuant to Rule 2.8 of the Takeovers Code, the Code Independent Board Committee for advising from the Takeovers Code's perspective (including the Proposed A Shares Issue and the Whitewash Waiver) should comprise all non-executive Directors and independent non-executive Directors who have no interest in the Proposed A Shares Issue and Whitewash Waiver other than as a Shareholder. For the avoidance of doubt, Mr. Cong Kechun, a non-executive Director, will not be a member of the Code Independent Board Committee in accordance with Rule 2.8 of the Takeovers Code due to his directorships or capacities as a member of the management of HHC.

The Listing Rules Independent Board Committee (comprising Mr. Pan Guangcheng, Mr. Zhu Jianwei and Mr. Lo Wah Wai, being all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Proposed A Shares Issue and the Specific Mandate.

The Independent Financial Adviser will be appointed to advise the Listing Rules Independent Board Committee, the Code Independent Board Committee and the Independent Shareholders in relation to the Proposed A Shares Issue and Whitewash Waiver. An announcement will be published by the Company upon the appointment of the Independent Financial Adviser.

#### **AGM AND CLASS MEETINGS**

The AGM will be convened to consider and, if thought fit, approve resolutions relating to, among others, (i) the Proposed A Shares Issue; (ii) the Specific Mandate; (iii) the Whitewash Waiver; and (iv) the amendments to the Articles.

The Class Meetings will be convened to consider and, if thought fit, approve resolutions relating to (i) the Proposed A Share Issues; and (ii) the Specific Mandate.

HHC, its associates and parties acting in concert with it (including Hualu Investment and Well Bring), and those who are involved in or interested in the Proposed A Share Issue and/or the Whitewash Waiver will be required to abstain from voting on the corresponding resolutions to be proposed at the AGM and/or the Class Meetings.

A circular containing, among others, (i) details of the Proposed A Shares Issue, the Specific Mandate, and the Whitewash Waiver; (ii) a letter from the Listing Rules Independent Board Committee, a letter from the Code Independent Board Committee and a letter of advice from the Independent Financial Adviser; and (iii) the notice of the AGM and the notices of the Class Meetings is expected to be despatched to the Shareholders on or before 5 May 2021 in accordance with the Listing Rules and the Takeovers Code.



**The completion of the Proposed A Shares Issue is subject to the satisfaction of certain conditions, including but not limited to the obtaining of the Whitewash Waiver, which may or may not be granted by the Executive and may or may not be approved by the Independent Shareholders. The granting of the Whitewash Waiver is a non-waivable condition precedent to the A Shares Subscription Agreement. Accordingly, the Proposed A Shares Issue may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

## **OTHER INFORMATION**

Shareholders' attention is also drawn to the overseas regulatory announcement dated 14 April 2021 issued by the Company in relation to the proposed non-public issuance of A Shares by the Company.

Reference is made to the paragraph headed "I. Analysis on the impact of risks arising from dilution of current returns by the non-public issuance on the key financial indicators – (II) Impact on key financial indicators" in Section VII – Dilution of Current Returns and Remedial Measures of the Announcement, the net profits attributable to the shareholders of the Company in the current financial period (i.e. the financial year ending 31 December 2021) before and after deduction of non-recurring items (the "**Relevant Information**") in an announcement headed "2021 Proposal for Non-Public Issuance of A Shares" ("**A Share Announcement**") in Chinese issued by the Company and published on the website of the SZSE (<http://www.szse.cn/>) on the same day as this announcement in relation to the Proposed A Shares Issue. A copy of the A Share Announcement also appears on the website of The Hongkong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) as an overseas regulatory announcement. The inclusion of the Relevant Information in the A Share Announcement is required under applicable laws and regulations of the PRC. While the Relevant Information constitutes a profit forecast under Rule 10 of the Takeovers Code, Shareholders and other investors should note that the Relevant Information, and any assumptions on which the Relevant Information were based, have not been prepared in compliance with the standards of care required under Rule 10 of the Takeovers Code and have not been reported on by financial advisers, auditors or accountants in accordance with the said Rule 10.

Therefore, the Relevant Information should not be relied upon as a forecast of any future profitability or other financial position of the Company. Shareholders and other investors should exercise caution when reading and interpreting the Relevant Information and when assessing the merits or demerits of the Proposed A Shares Issue and dealing or investing in the Shares or other securities of the Company.

An application has been made to the Executive for a waiver from reporting requirements set out in Rule 10 of the Takeovers Code, and the Executive has indicated that it is minded to grant such a waiver.

## **GENERAL**

### **Information on The Company**

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

### **Information on Hualu Investment**

Hualu Investment is a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of HHC. It is principally engaged in foreign investment through its own funds, management and investment consulting.

### **Information on 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.

The shares in HHC are owned:

- (i) as to 59.16% owned by Shandong State-owned Assets Supervision and Administration Commission (山東省國有資產監督管理委員會);
- (ii) as to 8.45% owned by Shandong Social Security Fund Council (山東省社會保障基金理事會);
- (iii) as to 12.17% owned by Shandong Finance & Finance Investment Group Co., Ltd. (山東省財金投資集團有限公司);
- (iv) as to 3.32% owned by Shandong Development Investment Holding Group Co., Ltd. (山東發展投資控股集團有限公司); and
- (v) as to 16.90% owned by Shandong Guohui Investment Co., Ltd. (山東國惠投資有限公司).

### **Information on Well Bring**

Well Bring is a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of HHC. It is principally engaged in foreign investment.

## **(1) DEFINITIONS**

In this announcement, unless the context otherwise requires, the expressions below shall have the following meanings:

“AGM”	the annual general meeting of the Company in 2021 for all Shareholders to be held for the purpose of, inter alia, considering and, if thought fit, passing the resolutions relating to Proposed A Shares Issue and the Whitewash Waiver
“A Share Shareholder(s)”	holder(s) of A Shares
“A Share(s)”	Renminbi-denominated domestic share(s) in the share capital of the Company, with a nominal value of RMB1.00 each which is (are) listed on the SZSE
“A Share Announcement”	has the meaning ascribed to it in the section headed

	“Other Information”
“A Share Class Meeting”	the class meeting of A Shareholders
“A Shares Subscription Agreement”	the subscription agreement entered into between the Company and Hualu Investment dated 14 April 2021 in relation to the issue and subscription of 36,284,470 A Shares
“acting in concert”	has the meaning as defined in the Takeovers Code; and the term “concert parties” shall be construed accordingly
“Articles”	the articles of association of the Company, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board”	the board of Directors
“Company”	Shandong Xinhua Pharmaceutical Company Limited (山東新華製藥股份有限公司), a joint stock company with limited liability established in the PRC, whose H shares and A shares are listed on the Hong Kong Stock Exchange and the SZSE respectively
“Class Meetings”	A Shares Class Meeting and H Shares Class Meeting
“Code Independent Board Committee”	the independent committee of the Company comprising all non-executive Directors and independent non-executive Directors (excluding Mr. Cong Kechun due to his directorships or capacities as a member of the management of HHC), which is formed in accordance with the Takeovers Code to advise the Independent Shareholders on (i) the Proposed A Shares Issue; (ii) the Specific Mandate; and (iii) the Whitewash Waiver, and as to voting
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules

“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC from time to time and any delegate of such Executive Director
“HHC”	Hualu Holdings Co. Ltd. (華魯控股集團有限公司), a company incorporated in the PRC and currently holding approximately 36.63% of the total number of Shares of the Company in issue as at the date of this announcement
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company, with a nominal value of RMB1.00 each and is(are) listed on the Hong Kong Stock Exchange
“H Share Class Meeting”	the class meeting of H Shareholders
“H Share Shareholder(s)”	holder(s) of H Shares
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hualu Investment”	Hualu Investment Co., Ltd.(華魯投資發展有限公司), a wholly-owned subsidiary of HHC
“Independent Financial Adviser”	the independent financial adviser to be appointed by the Company to advise the Independent Board Committee, Independent Committee and the Independent Shareholders on the Proposed A Shares Issue and the Whitewash Waiver and as to voting
“Independent Shareholder(s)”	the Shareholders other than (i) HHC, its associates and parties acting in concert with it (including Hualu Investment and Well Bring); and (ii) the Shareholders who are involved in or interested in the Proposed A

Shares Issue and/or the Whitewash Waiver

“Issuance Date”	the date of issuance of A Shares to the target subscriber pursuant to the Proposed A Shares Issue
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Listing Rules Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors, which is formed in accordance with the Listing Rules to advise the Independent Shareholders on (i) the Proposed A Shares Issue; and (ii) the Specific Mandate, and as to voting
“Pricing Benchmark Date”	15 April 2021, being one day after the date on which the Board approved the Proposed A Shares Issue at the 2 <sup>nd</sup> extraordinary meeting of the 10th session of the Board
“Proposed A Shares Issue”	the proposed non-public issuance of 36,284,470 A Shares to Hualu Investment
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“Share(s)”	A Share(s) and H Share(s)
“Shareholder(s)”	the holder(s) of Shares
“Share Option(s)”	the options granted under the Share Option Scheme
“Share Option Scheme”	the 2018 Share Option Incentive Scheme (A Shares) of the Company which was adopted on 28 December 2018 and amended on 22 December 2020
“Specific Mandate”	the specific mandate to be granted by the Shareholders to the Board in relation to the Proposed A Shares Issue

“SZSE”	Shenzhen Stock Exchange
“Takeovers Code”	the Code on Takeovers and Mergers
“Well Bring”	Well Bring Limited ( 維 斌 有 限 公 司 ), an indirect wholly-owned subsidiary of HHC
“Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligation on the part of HHC to make a general offer for all Shares and other equity share capital of the Company (other than those already owned or agreed to be acquired by HHC and its concert parties) as a result of the allotment and issue of the A Shares under the A Shares Subscription Agreement
“%”	per cent

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

14 April 2021, Zibo, PRC

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

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

Independent Non-executive Directors:  
Mr. Pan Guangcheng  
Mr. Zhu Jianwei  
Mr. Lo Wah Wai

Non-executive Directors:  
Mr. Cong Kechun  
Mr. Xu Lie

As at the date of this announcement, the directors of HHC include Mr. Fan Jun, Mr. Li Wei, Mr. Ding Zhenbo, Mr. Sun Youmin, Mr. Zhang Yuming, and Mr. Lou Hongxiang.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement other than those relating to HHC and parties acting in concert with it, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due

and careful consideration and there are no other facts not contained in this announcement the omission of which would make any statements in this announcement misleading.

The directors of HHC jointly and severally accept full responsibility for the accuracy of the information contained in this announcement other than those relating to the Company, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement the omission of which would make any statements in this announcement misleading.