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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)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTION

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTION

Reference is made to the announcements of the Company dated 22 October 2018 and 30 March 2021 and the circular of the Company dated 12 December 2018 and the annual reports of the Company for each of the years ended 31 December 2018, 2019 and 2020.

As the Company and/or its subsidiaries expects to continue procuring and supplying certain pharmaceutical related products and drugs from and to certain connected persons (including associates of HHC) and related parties of the Company, the Company has entered into the Shandong Lukang Agreement, the China Shandong Agreement and the Hualu Hengsheng Agreement (collectively, the “**CCT Agreements**”), the Perrigo Agreement and the Centrient Zibo Agreement (together with the CCT Agreements, the “**Agreements**”) with Shandong Lukang, China Shandong Group, Hualu Hengsheng, Perrigo Company and Centrient Zibo, respectively, on 23 November 2021, to renew the continuing connected transactions and related party transaction contemplated thereunder for a term from 1 January 2022 to 31 December 2024, respectively.

The purpose of this announcement is to set out the terms and details of the continuing connected transactions and related party transactions constituted by the Agreements and the respective proposed annual caps in respect of the continuing connected transactions for the years ending 31 December 2022, 2023 and 2024.

LISTING RULES IMPLICATIONS

The CCT Agreements (non-exempt continuing connected transactions)

Each of Shandong Lukang (the board of which is controlled by HHC), China Shandong Group (the issued share capital of which is held as to 99.75% by HHC) and Hualu Hengsheng (the issued share capital of which is indirectly held as to approximately 32.19% by HHC) are associates of HHC, the controlling shareholder of the Company and are therefore connected persons of the Company. The

CCT Agreements therefore constitute continuing connected transactions of the Company.

Since the Shandong Lukang Agreement, the China Shandong Agreement and the Hualu Hengsheng Agreement are of a similar nature and have been entered into by the Company with the parties which are connected with each other within a 12-month period, the Directors consider that the transactions contemplated under these Agreements should be aggregated as if they were one transaction pursuant to Rule 14A.81 of the Listing Rules.

As the applicable percentage ratios (other than the profits ratio) under the Listing Rules for the transactions contemplated under the CCT Agreements calculated on an aggregated basis pursuant to Rule 14A.81 of the Listing Rules exceed 5% on an annual basis, the transactions contemplated under the CCT Agreements constitute non-exempt continuing connected transactions and are subject to the reporting, announcement, circular (including independent financial advice), annual review, annual caps, the Independent Shareholders' approval and other requirements under Chapter 14A of the Listing Rules.

An EGM will be convened to consider and, if thought fit, to pass resolutions to approve the transactions and proposed annual caps in respect of the CCT Agreements. HHC and its associates will be required to abstain from voting at the EGM.

The IBC has been established to advise the Independent Shareholders on the CCT Agreements and the proposed annual caps in relation to the relevant continuing connected transactions contemplated thereunder. Further, the Company has appointed Altus Capital Limited as the Independent Financial Adviser to advise the IBC and the Independent Shareholders on the terms of and the proposed annual caps in relation to the continuing connected transactions under the CCT Agreements.

A circular containing, *inter alia*, (i) further details of the Relevant CCT Proposals; (ii) a letter from, and recommendation of, the IBC to the Independent Shareholders in respect of the Relevant CCT Proposals; (iii) the letter from the Independent Financial Adviser to the IBC and the Independent Shareholders in respect of the Relevant CCT Proposals; and (iv) the notice convening the EGM, is expected to be despatched by the Company to its Shareholders on or before 15 December 2021. As the circular is expected to include matters in addition to the Relevant CCT Proposals to be considered at the EGM, the Company will require more time to prepare the circular.

The Perrigo Agreement (partially exempt continuing connected transaction)

Perrigo Company currently indirectly holds 49% of the issued share capital of Zibo Xinhua-Perrigo, a subsidiary of the Company as of the date of this announcement, and is therefore regarded as a "connected person at the subsidiary level" (as defined under rule 14A.06(9) of the Listing Rules) of the Company.

As (i) Perrigo Company is regarded as a connected person at the subsidiary level of the Company only; (ii) the continuing connected transactions contemplated under the Perrigo Agreement are on normal commercial terms; (iii) the Board (including all the independent non-executive Directors of the Company) has approved the continuing connected transactions under the Perrigo Agreement and confirmed that the terms of the continuing connected transactions are fair and reasonable and that the continuing connected transactions are on normal commercial terms and in the interests of the Company and its shareholders as a whole, the continuing connected transactions contemplated under the Perrigo Agreement are subject to the reporting and announcement requirements, but are exempt from the circular, independent financial advice and the Independent Shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

IMPLICATIONS UNDER SHENZHEN LISTING RULES

The Centrient Zibo Agreement (related party transaction under Shenzhen Listing Rules)

Centrient Zibo is a joint venture company and the issued share capital of which is held as to 30% by the Company, and Mr. Zhang Daiming is a director of both the Company and Centrient Zibo, respectively. As such, Centrient Zibo is a related legal person (關聯法人) under the Shenzhen Listing Rules and the Centrient Zibo Agreement constitutes a related party transaction under the Shenzhen Listing Rules.

However, as Mr. Zhang Daiming does not, together with any other persons (i) exercise or control the exercise of 30% (or an amount for triggering a mandatory general offer or establishing legal or management control over a business enterprise under the PRC law) or more of the voting power at general meetings of Centrient Zibo; or (ii) control the composition of a majority of the board of directors of Centrient Zibo, Centrient Zibo is not an associate of Mr. Zhang Daiming and is therefore not a connected person of the Company under Chapter 14A of the Listing Rules. As such, the Centrient Zibo Agreement does not constitute a continuing connected transaction under Chapter 14A of the Listing Rules.

1. INTRODUCTION

Reference is made to the announcements of the Company dated 22 October 2018 and 30 March 2021 and the circular of the Company dated 12 December 2018 and the annual reports of the Company for each of the years ended 31 December 2018, 2019 and 2020.

As the Company expects to continue procuring and supplying certain pharmaceutical related products and drugs from and to certain connected persons (including associates of HHC) and related parties of the Company, the Company has entered into the Agreements with Shandong Lukang, China Shandong Group, Hualu Hengsheng, Perrigo Company and Centrient Zibo, respectively, on 23 November 2021, to renew the continuing connected transactions and related party transaction contemplated thereunder for a term from 1 January 2022 to 31 December 2024, respectively.

The purpose of this announcement is to set out the terms and details of the continuing connected transactions and related party transactions constituted by the Agreements and the respective proposed annual caps in respect of the continuing connected transactions for the years ending 31 December 2022, 2023 and 2024.

2. RENEWAL OF THE SHANDONG LUKANG AGREEMENT

Reference is made to the announcement of the Company dated 30 March 2021 in relation to the entering into by the Company of a supply of goods and service agreement with Shandong Lukang on even date concerning the purchase of preparation products and bulk drugs by the Group from, and the sale of pharmaceutical intermediaries and bulk drugs and provision of engineering design services by the Group to, Shandong Lukang and/or its subsidiaries over the period commencing from 1 January 2021 to 31 December 2021 (both dates inclusive) (the “**Existing Shandong Lukang Agreement**”). As the Existing Shandong Lukang Agreement shall expire on 31 December 2021, and the transactions contemplated thereunder will continue to be entered into on a recurring basis, the Company has entered into the Shandong Lukang Agreement with Shandong Lukang on 23 November 2021 (after trading hours) to renew the Existing Shandong Lukang Agreement.

The principal terms of the Shandong Lukang Agreement are set out below:

Date

23 November 2021

Parties

1. The Company; and
2. Shandong Lukang

Term

From 1 January 2022 to 31 December 2024 (both dates inclusive), subject to early termination by either party giving the other party at least three (3) months' prior written notice.

Subject matter

The Company and/or its subsidiaries shall purchase pharmaceutical preparation products and active ingredients ("APIs") from Shandong Lukang and/or its subsidiaries.

The Company and/or its subsidiaries shall sell pharmaceutical intermediaries, APIs as well as provide engineering design services to Shandong Lukang and/or its subsidiaries.

Pricing

The price of pharmaceutical preparation products and API to be acquired from, and the price of pharmaceutical intermediaries and APIs and the consideration for engineering design services to be sold to, Shandong Lukang and/or its subsidiaries, shall be determined through arm's length negotiations with Shandong Lukang and/or its subsidiaries with reference to:

- (i) the Pricing Policy; and
- (ii) the prevailing market price charged by independent third parties for comparable products and services.

In any event, the Company shall ensure that the price and consideration charged by Shandong Lukang and/or its subsidiaries or, as applicable, on, Shandong Lukang and/or its subsidiaries, shall be no less favourable to the Company than those entered into by the Company with independent third parties. On such basis, the Company is of the view that the pricing terms based on the above would reflect normal commercial terms or better for the Company.

Historical amounts and proposed annual caps

The following table summarises (i) the historical amounts in respect of the transactions under the Existing Shandong Lukang Agreement; and (ii) the annual caps proposed by the Board in respect of the transactions under the Shandong Lukang Agreement for the years ending 31 December 2022, 2023 and 2024:

	Historical amounts (unaudited) (RMB' 000)	Proposed annual cap for (RMB' 000)		
	Nine months from 1 January 2021 to 30 September 2021	Year ending 31 December 2022	Year ending 31 December 2023	Year ending 31 December 2024
Purchase of pharmaceutical preparation products and APIs by the Group from Shandong Lukang and/or its subsidiaries	4,624	12,500	13,500	13,500

Sale of pharmaceutical intermediaries, APIs and provisions of engineering design services by the Group to Shandong Lukang and/or its subsidiaries	2,899	6,000	9,000	9,000
Total	7,523	18,500	22,500	22,500

Basis for the proposed annual caps

The proposed annual caps under the Shandong Lukang Agreement was arrived at after taking into account (i) the historical amounts for the transactions between the Group and Shandong Lukang and/or its subsidiaries as disclosed above; (ii) the expected demand for products to be purchased by the Group from Shandong Lukang and/or its subsidiaries based on expected demand from customers of the Group for these products as well as end-products which require the use of these products in their product; (iii) expected demand of products and services to be supplied by the Group to Shandong Lukang and/or its subsidiaries based on discussions with Shandong Lukang; (iv) the prevailing market price as well as the market price trend for the relevant products and services to be purchased and/or sold; and (v) the anticipated business volume and production capacity of the Company.

The Company will satisfy the consideration of the transaction contemplated under the Shandong Lukang Agreement from its internal resources.

3. RENEWAL OF THE CHINA SHANDONG AGREEMENT

Reference is made to the announcement of the Company dated 30 March 2021 in relation to the entering into by the Company of a sales of goods agreement with China Shandong Group on even date concerning the sale of chemical drug products and chemical products by the Group to China Shandong Group and/or its subsidiaries over the period commencing from 1 January 2021 to 31 December 2021 (both dates inclusive) (the “**Existing China Shandong Agreement**”). As the Existing China Shandong Agreement shall expire on 31 December 2021, and the transactions contemplated thereunder will continue to be entered into on a recurring basis, the Company has entered into the China Shandong Agreement with China Shandong Group on 23 November 2021 (after trading hours) to renew the Existing China Shandong Agreement.

The principal terms of the China Shandong Agreement are set out below:

Date

23 November 2021

Parties

1. The Company; and
2. China Shandong Group

Term

From 1 January 2022 to 31 December 2024 (both dates inclusive), subject to early termination by either party giving the other party at least three (3) months’ prior written notice.

Subject matter

The Company and/or its subsidiaries shall sell chemical drug products and chemical products to China Shandong Group and/or its subsidiaries.

Pricing

The price of chemical drug products and chemical products to be sold to China Shandong Group and/or its subsidiaries shall be determined through arm's length negotiations with China Shandong Group and/or its subsidiaries with reference to:

- (i) the Pricing Policy; and
- (ii) the prevailing market price charged by independent third parties for comparable products.

In any event, the Company shall ensure that the price charged on China Shandong Group and/or its subsidiaries shall be no less favourable to the Company than those entered into by the Company with independent third parties. On such basis, the Company is of the view that the pricing terms based on the above would reflect normal commercial terms or better for the Company.

Historical amounts and proposed annual caps

The following table summarises (i) the historical amounts in respect of the transactions under the Existing China Shandong Agreement; and (ii) the annual caps proposed by the Board in respect of the transactions under the China Shandong Agreement for the years ending 31 December 2022, 2023 and 2024:

	Historical amounts (unaudited) (USD' 000)	Proposed annual cap for (USD' 000)		
	Nine months from 1 January 2021 to 30 September 2021	Year ending 31 December 2022	Year ending 31 December 2023	Year ending 31 December 2024
Sale of chemical drug products and chemical products by the Company to China Shandong Group and/or subsidiaries	4,104	8,000	10,000	11,000

Basis for the proposed annual caps

The proposed annual caps under the China Shandong Agreement was arrived at after taking into account (i) the historical amounts for the transactions between the Group and China Shandong Group and/or its subsidiaries as disclosed above; (ii) the expected demand for the chemical drug products and chemical products to be sold by the Group to China Shandong Group and/or its subsidiaries based on discussions with China Shandong Group; (iii) the prevailing market price as well as market price trend for chemical drug products and chemical products to be sold under the agreement; and (iv) the anticipated business volume and production capacity of the Company.

4. RENEWAL OF THE HUALU HENGSHENG AGREEMENT

Reference is made to the announcement of the Company dated 22 October 2018 and the circular of the Company dated 12 December 2018 in relation to the entering into by the Company of a purchase agreement with Hualu Hengsheng on 22 October 2018 in relation to the purchase by the Group of chemical raw materials from Hualu Hengsheng over the period commencing from 1 January 2019 to 31 December 2021 (both dates inclusive) (the “**Existing Hualu Hengsheng Agreement**”). As the Existing Hualu Hengsheng Agreement shall expire on 31 December 2021, and the transactions contemplated thereunder will continue to

be entered into on a recurring basis, the Company has entered into the Hualu Hengsheng Agreement with Hualu Hengsheng on 23 November 2021 (after trading hours) to renew the Existing Hualu Hengsheng Agreement.

The principal terms of the Hualu Hengsheng Agreement are set out below:

Date

23 November 2021

Parties

1. The Company; and
2. Hualu Hengsheng

Term

From 1 January 2022 to 31 December 2024 (both dates inclusive), subject to early termination by either party giving the other party at least three (3) months' prior written notice.

Subject matter

The Company and/or its subsidiaries shall purchase chemical raw materials from Hualu Hengsheng and/or its subsidiaries.

Pricing

The price of chemical raw materials to be purchased from Hualu Hengsheng and/or its subsidiaries shall be determined through arm's length negotiations with Hualu Hengsheng and/or its subsidiaries with reference to:

- (i) the Pricing Policy; and
- (ii) the prevailing market price charged by independent third parties for comparable products.

In any event, the Company shall ensure that the price charged on Hualu Hengsheng and/or its subsidiaries shall be no less favourable to the Company than those entered into by the Company with independent third parties. On such basis, the Company is of the view that the pricing terms based on the above would reflect normal commercial terms or better for the Company.

Historical amounts and proposed annual caps

The following table summarises (i) the historical amounts in respect of the transactions under the Existing Hualu Hengsheng Agreement; and (ii) the annual caps proposed by the Board in respect of the transactions under the Hualu Hengsheng Agreement for the years ending 31 December 2022, 2023 and 2024:

Historical amounts (<i>unaudited</i>) (RMB' 000)			Proposed annual cap for (RMB' 000)		
Year ended 31 December 2019	Year ended 31 December 2020	Nine months from 1 January to 30 September 2021:	Year ending 31 December 2022	Year ending 31 December 2023	Year ending 31 December 2024

Purchase of chemical raw materials by the Group from Hualu Hengsheng and/or its subsidiaries	139,108	127,345	140,489	257,000	234,000	234,000
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Basis for the proposed annual caps

The proposed annual cap under the Hualu Hengsheng Agreement was arrived at after taking into account (i) the historical amounts for the transactions between the Group and Hualu Hengsheng and/or its subsidiaries as disclosed above; (ii) the expected demand for the chemical raw materials to be purchased by the Group from Hualu Hengsheng and/or its subsidiaries based on expected demand from customers of the Group for end-products which require the use of relevant chemical raw materials; (iii) the prevailing market price as well as market price trend for chemical raw materials to be purchased under the agreement; and (iv) the anticipated business volume and production capacity of the Company.

5. RENEWAL OF THE PERRIGO AGREEMENT

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

Date

23 November 2021

Parties

1. The Company; and
2. Perrigo Company

Term

From 1 January 2022 to 31 December 2024 (both dates inclusive), subject to early termination by either party giving the other party at least three (3) months' prior written notice.

Subject matter

The Company and/or its subsidiaries shall sell chemical drug products and pharmaceutical preparation products to Perrigo Company, which shall act as the exclusive distributor of the Group for the distribution of the chemical raw materials and pharmaceutical preparation products globally (other than the domestic PRC market).

Pricing

The price of chemical drug products and pharmaceutical preparation products to be sold to Perrigo Company shall be determined through arm's length negotiations with Perrigo Company with reference to:

- (i) the Pricing Policy; and
- (ii) the prevailing market price charged by independent third parties for comparable products.

In any event, the Company shall ensure that the price charged on Perrigo Company shall be no less favourable to the Company than those entered into by the Company with independent third parties. On such basis, the Company is of the view that the pricing terms based on the above would reflect normal commercial terms or better for the Company.

Historical amounts and proposed annual caps

The following table summarises (i) the historical amounts in respect of the transactions under the existing agreement between the Company and Perrigo Company in relation to the sale of chemical raw materials to Perrigo Company (the “**Existing Perrigo Agreement**”); and (ii) the annual caps proposed by the Board in respect of the transactions under the Perrigo Agreement for the years ending 31 December 2022, 2023 and 2024:

	Historical amounts (<i>unaudited</i>) (RMB' 000)			Proposed annual cap for (RMB' 000)		
	Year ended 31 December 2019	Year ended 31 December 2020	Nine months from 1 January to 30 September 2021:	Year ending 31 December 2022	Year ending 31 December 2023	Year ending 31 December 2024
Sale of chemical drug products and pharmaceutical preparation products by the Group to Perrigo Company	22,687	15,964	30,486	488,000	723,000	924,000

Note: The actual annual transaction amounts under the Existing Perrigo Agreement over each of the three financial years ended 31 December 2019, 2020 and 2021 have not exceeded the thresholds concerning *de minimis* transactions under Rule 14A.76(1) of the Listing Rules. Therefore, the Existing Perrigo Agreement and transactions thereunder were fully exempt from independent shareholders' approval, annual review and all disclosure requirements set out in Chapter 14A of the Listing Rules.

Basis for the proposed annual caps

The proposed annual cap under the Perrigo Agreement was arrived at after taking into account (i) the historical amounts for the transactions between the Group and Perrigo Company as disclosed above; (ii) the expected demand for the chemical drug products and pharmaceutical preparation products of the Group in international markets (excluding the domestic PRC market) following discussions with Perrigo Company; (iii) the prevailing market price as well as market price trend for chemical drug products and pharmaceutical preparation products to be sold under the agreement; and (iv) the anticipated business volume and production capacity of the Company.

6. RENEWAL OF THE CENTRIENT ZIBO AGREEMENT

The principal terms of the Centrient Zibo Agreement are set out below:

Date

23 November 2021

Parties

1. The Company; and
2. Centrient Zibo

Term

From 1 January 2022 to 31 December 2024 (both dates inclusive), subject to early termination by either party giving the other party at least three (3) months' prior written notice.

Subject matter

The Company and/or its subsidiaries shall provide utility (including water, electricity and steam) and provide engineering design services to Centrient Zibo and/or its subsidiaries.

The Company and/or its subsidiaries shall purchase chemical raw materials from Centrient Zibo and/or its subsidiaries.

For further details of the Centrient Zibo Agreement, please refer to the overseas regulatory announcement of the Company dated 23 November 2021.

7. PRICING POLICY

The Pricing Policy for the transactions contemplated under each of the Agreements is summarised in the following table:

<i>Relevant transactions in relation to purchase of products</i>	<i>Pricing policy</i>
<ul style="list-style-type: none"> purchase of pharmaceutical preparation products and APIs by the Company from Shandong Lukang under the Shandong Lukang Agreement purchase of chemical raw materials by the Company from Hualu Hengsheng under the Hualu Hengsheng Agreement purchase of chemical raw materials by the Company from Centrient Zibo under the Centrient Zibo Agreement 	<p>The prices and terms in respect of any purchase of products by the Group shall be negotiated on an arm's length basis with relevant counterparties taking into account 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.</p>
<i>Relevant transactions in relation to sale of products</i>	<i>Pricing policy</i>
<ul style="list-style-type: none"> sale of pharmaceutical intermediaries, APIs and by the Company to Shandong Lukang under the Shandong Lukang Agreement sale of chemical drug products and chemical products by the Company to China Shandong Group under the China Shandong Agreement sale of chemical drug products and pharmaceutical preparation products by the Company to Perrigo Company under the Perrigo Agreement provision of utility (including water, electricity and steam) by the Company to Centrient Zibo under the Centrient Zibo Agreement 	<p>The prices and terms for any sale of products, chemical materials and/or provision of utility from the Group will be negotiated on arm's length basis with relevant counterparties taking into account and/or with reference to the following:</p> <p>(i) the actual costs incurred plus a reasonable profit margin (with reference to the general range of profit in the industry).</p> <p>The Company will refer to the historical average price for the relevant products and profit margins of comparable products and services disclosed by at least two other PRC listed companies to determine whether the profit margin charged is in line with the industry.</p> <p>In this regard, some PRC listed 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 PRC 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.</p> <p>(ii) the demand and supply in the market for the relevant products and the urgency of the orders from counterparties at the relevant time will be considered in determining the final transaction price.</p>

Relevant transactions in relation to provision of engineering design services

Pricing policy

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|---|--|
| <ul style="list-style-type: none">• provision of engineering design services by the Company to Shandong Lukang under the Shandong Lukang Agreement• provision of engineering design services by the Company to Centrient Zibo under the Centrient Zibo Agreement | <p>The determination of the service fees chargeable by the Group on relevant counterparties will be negotiated on arm's length basis with the counterparties taking into account and/or with reference to the following:</p> <ul style="list-style-type: none">(i) the urgency of the requested services to be provided;(ii) the estimated man-hours and/or man-days of the human resources required to provide the relevant services;(iii) the materiality and complexity of the proposed services to be provided; and(iv) the fees charged for historical transactions of similar nature. |
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8. INTERNAL CONTROLS

To ensure that the continuing connected transactions and related party transaction contemplated under the Agreements will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its public 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 Agreements before entering into such transactions to ensure that they are on normal commercial terms;
- (ii) the finance department of the Company shall review the relevant transactions on a monthly basis and submit the relevant information (including, but not limited to, historical and actual transaction amounts) to the Board for review to ensure, without limitation, that the relevant transactions are conducted in accordance with the terms of the Agreements, that the annual caps (as applicable) have not been exceeded, and that the pricing mechanism has been effectively implemented; and
- (iii) the independent non-executive Directors and the auditors of the Company will conduct annual review on the continuing connected transactions and related party transaction contemplated under the Agreements to confirm that the pricing mechanisms and annual caps remain fair and reasonable, and provide confirmation of the same annually in the annual report of the Company in accordance with the Listing Rules.

9. REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS AND RELATED-PARTY TRANSACTION

By entering into the Shandong Lukang Agreement, the Company and/or its subsidiaries is able to expand their sales channels by selling pharmaceutical intermediates and APIs to Shandong Lukang and/or its subsidiaries. The purchase of pharmaceutical preparation products and APIs from Shandong Lukang and/or its subsidiaries enables the Company to distribute such products to medical institutions on a large scale in the Luzhong region (the surrounding areas of the Company) and to meet the Company's production needs. The provision of engineering design service to Shandong Lukang and/or its subsidiaries can enable the Company to utilise its pharmaceutical engineering capabilities as well as product and solution innovation experience in the pharmaceutical industry.

By entering into the China Shandong Agreement, the Company and/or its subsidiaries is able to scale up the international sales of its products and expand its business into international markets, as well as secure a stable source of income from the sale of its products.

By entering into the Hualu Hengsheng Agreement, the Company is able to minimise procurement costs by

reducing intermediate layers, as well as secure a steady supply of chemical products without incurring extra costs by purchasing them through other third parties.

By entering into the Perrigo Agreement, the Company is able to obtain the product technical support and stable sales channels from Perrigo Company. Through the sales of chemical raw materials and pharmaceutical preparation products to Perrigo Company, the Company is able to maintain stable and continuous revenue growth in order to expand the Company's business scale in the international markets.

By entering into the Centrient Zibo Agreement, the Company is able to generate revenue through provision of utility and provision of engineering design service to Centrient Zibo, as well as secure a steady supply of raw materials from the relevant contracting parties without incurring extra costs by purchasing them from other suppliers.

10. LISTING RULES IMPLICATIONS

Connected persons and related persons of the Company

Each of Shandong Lukang (the board of which is controlled by HHC), China Shandong Group (the issued share capital of which is held as to 99.75% by HHC) and Hualu Hengsheng (the issued share capital of which is indirectly held as to approximately 32.19% by HHC) are associates of HHC, the controlling shareholder of the Company, and are therefore connected persons of the Company under Chapter 14A of the Listing Rules. The CCT Agreements therefore constitute continuing connected transactions of the Company.

Perrigo Company currently indirectly holds 49% of the issued share capital of Zibo Xinhua-Perrigo, a subsidiary of the Company as of the date of this announcement, and is therefore regarded as a “connected person at the subsidiary level” (as defined under rule 14A.06(9) of the Listing Rules) of the Company.

Hualu Hengsheng is indirectly held as to 32.19% by HHC. As such, Hualu Hengsheng is a connected person of the Company under Chapter 14A of the Listing Rules.

Centrient Zibo is a joint venture company and the issued share capital of which is held as to 30% by the Company, and Mr. Zhang Daiming is a director of both the Company and Centrient Zibo, respectively. However, as Mr. Zhang Daiming does not, together with any other persons (i) exercise or control the exercise of 30% (or an amount for triggering a mandatory general offer or establishing legal or management control over a business enterprise under the PRC law) or more of the voting power at general meetings of Centrient Zibo; or (ii) control the composition of a majority of the board of directors of Centrient Zibo, Centrient Zibo is not an associate of Mr. Zhang Daiming and is therefore not a connected person of the Company under Chapter 14A of the Listing Rules.

Listing Rules implications concerning CCT Agreements

Since the Shandong Lukang Agreement, the China Shandong Agreement and the Hualu Hengsheng Agreement are of a similar nature and have been entered into by the Company with the parties which are connected with each other within a 12-month period, the Directors consider that the transactions contemplated under these Agreements should be aggregated as if they were one transaction pursuant to Rule 14A.81 of the Listing Rules.

As the applicable percentage ratios (other than the profits ratio) under the Listing Rules for the transactions contemplated under the CCT Agreements calculated on an aggregated basis pursuant to Rule 14A.81 of the Listing Rules exceed 5% on an annual basis, the transactions contemplated under the CCT Agreements constitute non-exempt continuing connected transactions and are subject to the reporting, announcement, circular (including independent financial advice), annual review, annual caps, the Independent Shareholders' approval and other requirements under Chapter 14A of the Listing Rules.

Listing Rules implications concerning the Perrigo Agreement

As (i) Perrigo Company is regarded as a connected person at the subsidiary level of the Company only; (ii) the continuing connected transactions contemplated under the Perrigo Agreement are on normal commercial terms; (iii) the Board (including all the independent non-executive Directors of the Company) has approved the continuing connected transactions under the Perrigo Agreement and confirmed that the terms of the continuing connected transactions are fair and reasonable and that the continuing connected transactions are on normal commercial terms and in the interests of the Company and its shareholders as a whole, the continuing connected transactions contemplated under the Perrigo Agreement are subject to the reporting and announcement requirements, but are exempt from the circular, independent financial advice and independent shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

Shenzhen Listing Rules implications concerning the Centrient Zibo Agreement

Since Centrient Zibo is not a connected person of the Company under Chapter 14A of the Listing Rules, the Centrient Zibo Agreement does not constitute a continuing connected transaction under Chapter 14A of the Listing Rules.

However, Centrient Zibo is a related legal person (關聯法人) under the Shenzhen Listing Rules and the Centrient Zibo Agreement constitutes a related party transaction under the Shenzhen Listing Rules.

11. APPROVAL BY THE BOARD

The Board (including the independent non-executive Directors, but excluding Mr. Zhang Daiming (who has abstained from voting in respect of the Centrient Zibo Agreement) and Mr. Cong Kechun (who has abstained from voting in respect of the CCT Agreements) (collectively, “**Interested Directors**”) who are considered to have a material interest in the Agreements due to their respective directorships or capacities as a member of the management of a subsidiary of HHC) have considered and reviewed the terms and provisions of the Agreements and are of the view and resolved, in a duly convened meeting of the Board, that the Agreements have been entered into on an arm's length basis and in the ordinary and usual course of business, and that the transactions contemplated thereunder and the relevant proposed annual caps are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Other than the Interested Directors, none of the other Directors has any material interest in the Agreements and were required to abstain from voting, or abstained from voting, on the relevant resolutions of the Board concerning approval of the Agreements.

12. APPROVAL BY INDEPENDENT SHAREHOLDERS

The Company will seek the Independent Shareholders' approval of the entering into the CCT Agreements, their respective annual caps and the continuing connected transactions contemplated thereunder (collectively, the “**Relevant CCT Proposals**”) at the EGM to be convened. Any Shareholder with a material interest in the CCT Agreements or transactions thereunder will not vote on the relevant resolutions at the EGM.

In view of the direct or indirect interests of HHC and/or its associates in the CCT Agreements and transactions contemplated thereunder, HHC and its associates will abstain from the resolutions for approving the Relevant CCT Proposals at the EGM.

In accordance with the Listing Rules, the IBC shall give recommendations to the Independent Shareholders (including to give their view as to whether the Relevant CCT Proposals are fair and reasonable and whether the relevant transactions or arrangements contemplated thereunder are in the interests of the Company and its Shareholders as a whole) and to advise them on how to vote in respect of the Relevant CCT Proposals. In providing such recommendations, the IBC shall have regard to recommendations to be given by the Independent Financial Adviser, Altus Capital Limited, that has been appointed by the Company to advise the IBC and the Independent Shareholders in relation to the Relevant CCT Proposals.

A circular containing, *inter alia*:

- (i) further details of the Relevant CCT Proposals;
- (ii) a letter from, and recommendation of, the IBC to the Independent Shareholders in respect of the Relevant CCT Proposals;
- (iii) a letter from the Independent Financial Adviser to the IBC and the Independent Shareholders in respect of the Relevant CCT Proposals; and
- (iv) the notice convening the EGM,

is expected to be despatched by the Company to its Shareholders on or before 15 December 2021. As the circular is expected to include matters in addition to the Relevant CCT Proposals to be considered at the EGM, the Company will require more time to prepare the circular.

13. INFORMATION OF THE PARTIES TO THE AGREEMENTS

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 Shenzhen Stock Exchange respectively. The Company is principally engaged in the development, manufacture and sale of bulk pharmaceuticals, preparations and chemical products. The ultimate beneficial owner of the Company is the State-owned Assets Supervision and Administration Commission of the State Council of Shandong province.

HHC is a state-owned enterprise principally engaged in investment holding of various listed public companies (listed on the stock exchanges of the Mainland China and Hong Kong) and private companies, and is the controlling shareholder of the Company).

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

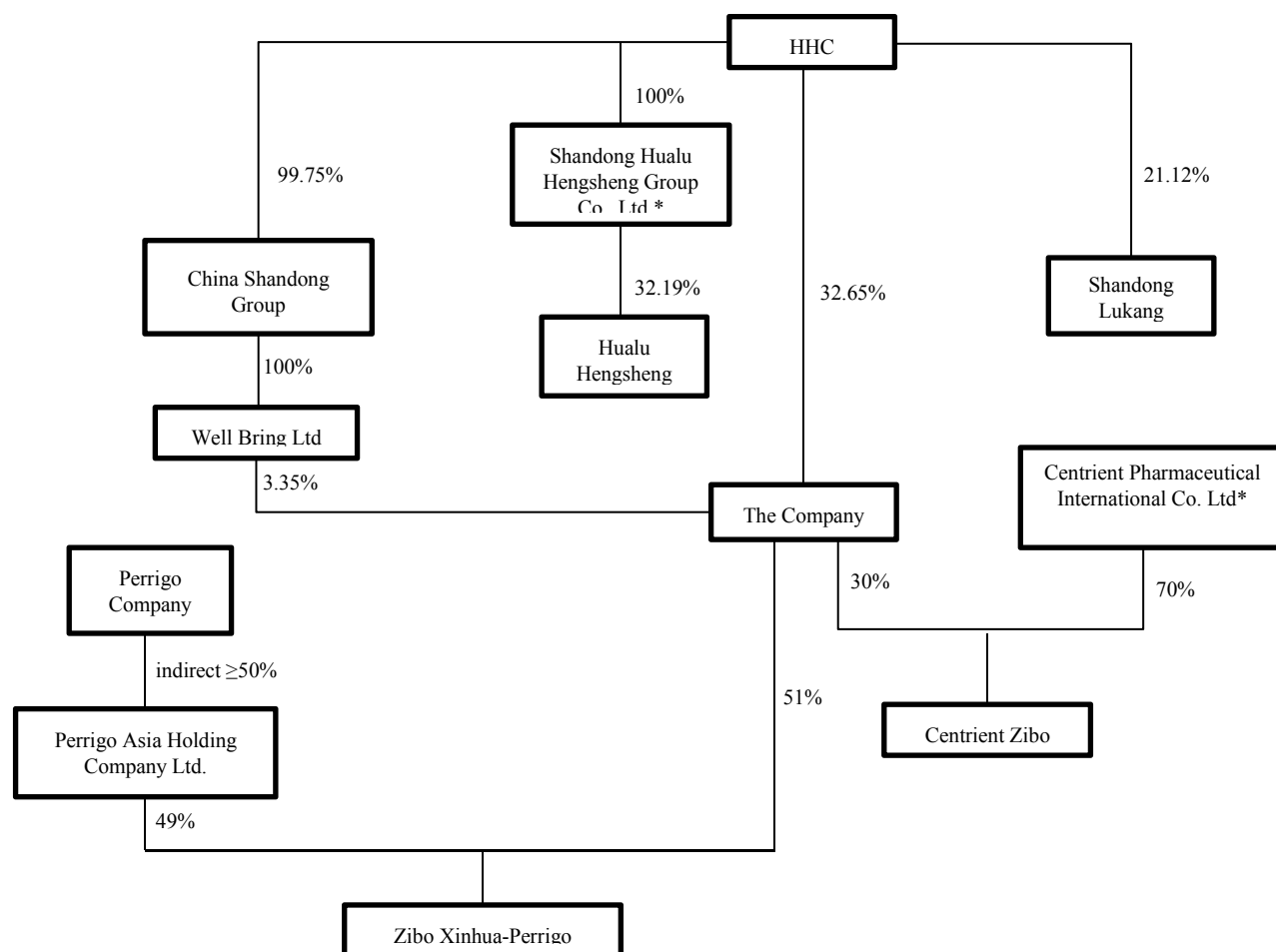
China Shandong Group is a company incorporated in Hong Kong with limited liability and its principal businesses include project investment and import and export trade.

Perrigo Company is a company incorporated in the United States with limited liability and its principal businesses include the manufacture, distribution and sale of certain over-the-counter, non-prescription pharmaceutical products in the United States.

Hualu Hengsheng is a company incorporated in the PRC with limited liability and its principal businesses include, the production and sales of chemical products. The company's main businesses include the production and sales of chemicals and chemical fertilizers, as well as the electricity generation and heating supply businesses.

Centrient Zibo is a company incorporated in the PRC with limited liability and its principal business include the manufacturing of chemical raw materials and the sales of its manufactured products.

As of the date of this announcement, the following chart shows the shareholding relationship between the Group and each of Shandong Lukang, China Shandong Group, Perrigo Company, Hualu Hengsheng and Centrient Zibo:



*For indication only

DEFINITIONS

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

“A Share”	the domestic Shares of the Company which are listed on Shenzhen Stock Exchange and traded and denominated in RMB, with a nominal value of RMB1.00 each
“Agreements”	collectively, the Shandong Lukang Agreement, the China Shandong Agreement, the Hualu Hengsheng Agreement, the Perrigo Agreement and the Centrient Zibo Agreement
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors of the Company
“CCT Agreements”	collectively, the Shandong Lukang Agreement, the China Shandong Agreement and the Hualu Hengsheng Agreement
“Centrient Zibo”	Centrient Pharmaceutical (Zibo) Co., Ltd. (燦盛製藥 (淄博) 有限公司), a company incorporated in the PRC with limited liability and the issued share capital of which is held as to 30% by the Company as of the date of this announcement
“Centrient Zibo Agreement”	the agreement entered into between the Company and Centrient Zibo on 23 November 2021 as described in this announcement
“China Shandong Group”	China Shandong Group Ltd. (華魯集團有限公司), a company incorporated in Hong Kong with limited liability and the issued share capital of which is held as to 99.75% by, and is a subsidiary of, HHC as of the date of this announcement
“China Shandong Agreement”	the agreement entered into between the Company and China Shandong Group on 23 November 2021 as described in this announcement
“Company”	Shandong Xinhua Pharmaceutical Company Limited, a joint stock limited company incorporated in the PRC, the H Shares and A Shares of which are listed on the Hong Kong Stock Exchange (stock code: 00719) and the Shenzhen Stock Exchange (stock code: 000756) respectively
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	the 2021 second extraordinary general meeting of the Shareholders or any adjournment thereof to approve, among others, the continuing connected transactions and related party transaction described in this announcement

“Group”	the Company and its subsidiaries from time to time
“Hualu Hengsheng”	Shandong Hualu Hengsheng Chemical Company Limited (山東華魯恒升化工股份有限公司), a company incorporated in the PRC with limited liability and the issued share capital of which is indirectly held as to approximately 32.19% by HHC as of the date of this announcement
“Hualu Hengsheng Agreement”	the agreement entered into between the Company and Hualu Hengsheng on 23 November 2021 as described in this announcement
“HHC”	Hualu Holdings Co. Ltd. (華魯控股集團有限公司), a company incorporated in the PRC and holding approximately 32.65% of the total number of Shares of the Company in issue as of the date of this announcement
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share”	H shares of the Company which are listed on Hong Kong Stock Exchange and traded and denominated in Hong Kong dollar, with a nominal value of RMB1.00 each
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IBC”	the independent board committee (consisting only independent non-executive Directors) established by the Company
“Independent Financial Adviser”	Altus Capital Limited, a corporation licensed to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the IBC and the Independent Shareholders in respect of the continuing connected transactions under the CCT Agreements and the proposed annual caps contemplated thereunder
“Independent Shareholder(s)”	means Shareholders other than HHC and its associates
“independent third par(ties)”	a person or persons or a company or companies that is not or are not connected person(s) of the Group
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as may be amended, supplemented or modified from time to time
“Perrigo Agreement”	the agreement entered into between the Company and Perrigo Company on 23 November 2021 as described in this announcement
“Perrigo Company”	Perrigo Company, a company incorporated in the United States with limited liability and indirectly holds 49% of the issued share capital of Zibo Xinhua-Perrigo, a subsidiary of the Company as of the date of this announcement
“Pricing Policy”	the pricing policy adopted by the Company in connection with procurement and sale or provision of products and services as further described in the section “Pricing Policy” in this announcement

“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Lukang”	Shandong Lukang Pharmaceutical Co., Ltd (山東魯抗醫藥股份有限公司), a company incorporated in the PRC with limited liability (the issued share capital of which is held as to approximately 21.12% by HHC and which HHC has the right to appoint or remove a majority of its board of directors) and is a subsidiary of HHC as of the date of this announcement
“Shandong Lukang Agreement”	the agreement entered into between the Company and Shandong Lukang on 23 November 2021 as described in this announcement
“Shareholders”	the holders of Shares
“Share(s)”	collectively, A Share(s) and H Share(s)
“Shenzhen Listing Rules”	Rules Governing the Listing of Securities on the Shenzhen Stock Exchange
“Zibo Xinhua-Perrigo”	Zibo Xinhua-Perrigo Pharmaceutical Company Limited (淄博新華—百利高製藥有限責任公司), a company incorporated in the PRC with limited liability and is a subsidiary of the Company as of the date of this announcement

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

23 November 2021, Zibo, the 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