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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: 0719)

**CONNECTED TRANSACTION  
IN RELATION TO  
FINANCE LEASE ARRANGEMENT**

**FINANCE LEASE AGREEMENT**

The Board is pleased to announce that on 12 June 2015, the Company entered into the Finance Lease Agreement with Hualu International, pursuant to which, the Company has agreed to lease from Hualu International the Lease Assets, which shall be transferred from the Company to Hualu International at the Transfer Consideration of US\$12,000,000 (equivalent to approximate RMB74,386,800).

The lease consideration consists of the principal amount of US\$12,000,000 (equivalent to approximate RMB74,386,800) and lease interests. The lease principal will be paid by the Company by way of one-off payment upon the expiry of the Finance Lease Agreement. The lease interest rate is a floating rate based on the prevailing three-month US\$ Libor lending rate on the payment date of each instalment of the lease interests. In the event that Libor is adjusted, the lease interest rate under the Finance Lease Agreement will be adjusted accordingly. The lease interests will be paid by the Company in twelve instalments on a three-month basis. The Company is also required to pay to Hualu International the handling fee of RMB1,800,000 under the Finance Lease Agreement. The handling fee shall be paid in three instalments. The first instalment shall be paid on the commencement date of the lease, and the second and third instalments shall be paid on the first and second anniversary date of the commencement of the lease respectively.

**LISTING RULES IMPLICATIONS**

As at the date of this announcement, HHGC is a substantial shareholder of Hualu International. HHGC is also a substantial shareholder of the Company and holds 35.32% equity interest of the Company through its wholly owned subsidiary, SXPGC. Accordingly, Hualu International is a connected person of the Company under Chapter 14A of the Listing Rules. The Finance Lease Arrangement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio applied in accordance with Rule 14.07 of the Listing Rules in respect of the Finance Lease Arrangement exceeds 0.1% but is less than 5%, the transaction contemplated thereunder is subject to reporting and announcement but is exempt from Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

## **1. FINANCE LEASE AGREEMENT**

### **Date**

12 June 2015

### **Parties**

**Lessor:** Hualu International

**Lessee:** The Company

On 12 June 2015, the Company entered into the Finance Lease Agreement with Hualu International, pursuant to which, the Company has agreed to lease from Hualu International the Lease Assets, which shall be transferred from the Company to Hualu International at the Transfer Consideration of US\$12,000,000 (equivalent to approximate RMB74,386,800).

### **Lease Assets**

The Lease Assets are machinery and equipment currently owned by the Company, the ownership of which will be transferred to Hualu International pursuant to the Finance Lease Agreement.

As at 12 June 2015, the unaudited book value of the Lease Assets was approximately RMB85,000,000.

### **Purchase of the Lease Assets by Hualu International**

Pursuant to the Finance Lease Agreement, the Company has conditionally agreed to sell, and Hualu International agrees to buy, the Lease Assets at the Transfer Consideration of US\$12,000,000 (equivalent to approximate RMB74,386,800). The Transfer Consideration was determined after arm's length negotiations between the Company and Hualu International with reference to the book value of the Lease Assets as at the date of the Finance Lease Agreement.

### **Lease Period**

The lease period for the Lease Assets is three years commencing from the date on which the Transfer Consideration is paid to the Company, which is also the commencement date of the lease on which the rent starts to accrue.

### **Handling Fee, Lease Consideration and Payment**

The Company is required to pay to Hualu International the handling fee of RMB1,800,000 under the Finance Lease Agreement. The handling fee shall be paid in three instalments. The first instalment shall be paid on the commencement date of the lease, and the second and third instalment shall be paid on the first and second anniversary date of the lease respectively.

The lease consideration consists of the principal amount of US\$12,000,000 (equivalent to approximate RMB74,386,800) and lease interests. The lease principal will be paid by the Company by way of one-off payment upon the expiry of the Finance Lease Agreement. The lease interests will be paid by the Company in twelve instalments on a three-month basis. The lease interest rate is a floating rate based on the prevailing three-month US\$ Libor lending rate on the payment date of each instalment of the lease interests. Based on the present Libor, the annual lease interest rate is approximately 3.6%, and the total amount of lease interests for the entire term of the Finance Lease Agreement is approximately RMB8,064,000.

In the event that Libor is adjusted, the lease interest rate under the Finance Lease Agreement will be adjusted accordingly. Hualu International will issue a notice of adjustment to the lease consideration to the Company. Assuming Libor remains unchanged throughout the lease period, the handling fee and the lease consideration for the entire term of the Finance Lease Agreement is approximately RMB 84,250,000.

The handling fee and the lease consideration have been determined after arm's length negotiations between the Company and Hualu International with reference to, inter alia, (1) the prevalent market conditions (including the interest rate, which is no less favourable than those offered by an independent third party for similar services) and the potential adjustment of Libor in the future; and (2) the prevailing market rate for comparable assets finance leases.

### **Ownership and Purchase Option**

Titles of the Lease Assets shall vest in Hualu International throughout the lease period.

Provided that the Company has paid up the handling fee, the lease consideration and other payables (if any) in full contemplated under the Finance Lease Agreement, the Company has an option to purchase the Lease Assets from Hualu International at a nominal price of RMB100.

### **Transfer of Rights, Interests and Obligations**

The Company shall not, without the prior written consent of Hualu International, (1) transfer, sublease, mortgage, pledge, invest in or otherwise infringe the ownership of Hualu International to the Lease Assets; and (2) remove the Lease Assets from the factory area of the Company.

## **2. REASONS FOR AND BENEFITS OF ENTERING INTO THE FINANCE LEASE AGREEMENT**

The entering into of the Finance Lease Agreement will improve the financing structure of the Company. It also enable the Company to expand its financing channels and lower its financing cost.

## **3. LISTING RULES IMPLICATIONS**

As at the date of this announcement, HHGC is a substantial shareholder of Hualu International. HHGC is also a substantial shareholder of the Company and holds 35.32% equity interest of the Company through its wholly owned subsidiary, SXPGC. Accordingly, Hualu International is a connected person of the Company under Chapter 14A of the Listing Rules. The Finance Lease Arrangement therefore constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio applied in accordance with Rule 14.07 of the Listing Rules in respect of the Finance Lease Arrangement exceeds 0.1% but is less than 5%, the transaction contemplated thereunder is subject to reporting and announcement but is exempt from Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Due to their interests in Hualu International, Mr. Zhang Daiming, Mr. Ren Fulong, Mr. Du Deping, Mr. Xu Lie and Mr. Zhao Bin have all abstained from voting on the Board resolutions approving the Finance Lease Agreement and the transactions (including the annual caps) contemplated under the Finance Lease Agreement. Save as disclosed above, none of the Directors has material interest in the transactions contemplated under the Finance Lease Agreement. The Directors (including the independent non-executive Directors) are of the view that the terms of the Finance Lease Agreement (including the annual caps) are on normal commercial terms and fair and reasonable and are also in the interest of the Company and its Shareholders as a whole.

## **4. INFORMATION ON THE PARTIES**

The Company is mainly engaged in the development, manufacture and sales of bulk pharmaceuticals, preparations and chemicals products.

Hualu International is mainly engaged in finance leasing, leasing, purchasing leasing assets from abroad and domestic vendors, salvage value disposal and maintenance of the leasing asset, and lease transaction consultation.

## Definitions

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

“ <b>Board</b> ”	means the board of Directors of the Company;
“ <b>Company</b> ”	means 山東新華製藥股份有限公司 (Shandong Xinhua Pharmaceutical Company Limited), a joint stock company incorporated in the PRC with limited liability;
“ <b>Directors</b> ”	means the directors of the Company including the independent non-executive directors of the Company;
“ <b>Finance Lease Agreement</b> ”	means Finance Lease Agreement dated 12 June 2015 entered into between Hualu International and the Company;
“ <b>Finance Lease Arrangement</b> ”	means the finance lease arrangement in relation to the finance lease of the Lease Assets pursuant to the Finance Lease Agreement;
“ <b>Group</b> ”	means the Company and its subsidiaries;
“ <b>HHGC</b> ”	means 華魯控股集團有限公司 (Hualu Holdings Group Company Limited), a wholly state-owned company, the controlling shareholder of SXPGC;
“ <b>Hualu International</b> ”	means 華魯國際融資租賃有限公司 (Hualu International Financial Leasing Co., Ltd.), a company incorporated in the PRC with limited liability and a subsidiary of HHGC;
“ <b>Independent Shareholders</b> ”	means the Shareholders other than SXPGC and its respective associates (as defined in the Listing Rules);
“ <b>Leasing Assets</b> ”	means the lease assets to be transferred and leased under the Finance Lease Agreement;
“ <b>Libor</b> ”	means London Interbank Offered Rate;
“ <b>Listing Rules</b> ”	means the Rules Governing the Listing of Securities on the Stock Exchange;
“ <b>PRC</b> ”	means the People’s Republic of China;
“ <b>RMB</b> ”	means Renminbi, the lawful currency of the PRC for the time being;

“Shareholders”	means the shareholders of the Company;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“SXPGC”	means 山東新華醫藥集團有限責任公司 (Shandong Xinhua Pharmaceutical Group Company Limited), a wholly state-owned company which holds and owns 35.32% of the total issued share capital of the Company and is currently the largest shareholder of the Company;
“Transfer Consideration”	means the consideration of US\$12,000,000 (equivalent to approximate RMB74,386,800) to be paid by Hualu International to the Company in relation to the purchase of the Lease Assets under the Finance Lease Agreement; and
“US\$”	means United States dollars, the lawful currency of the United States of America.

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

12 June 2015, Zibo, PRC

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

Executive Directors:

Mr. Zhang Daiming (Chairman)  
Mr. Du Deping

Independent Non-executive Directors:

Mr. Du Guanhua  
Mr. Li Wenming  
Mr. Chan Chung Kik, Lewis

Non-executive Directors:

Mr. Ren Fulong  
Mr. Xu Lie  
Mr. Zhao Bin