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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)

CONTINUING CONNECTED TRANSACTION

The Board announces that on 30 October 2017, the Company entered into the 2017 Supplemental Trademark Licence Agreement with SXPGC.

Reference is made to the announcements of the Company dated 28 October 2009, 23 March 2012 and 27 October 2014.

On 30 October 2017, the Company and SXPGC entered into the 2017 Supplemental Trademark Licence Agreement. Pursuant to the 2017 Supplemental Trademark Licence Agreement, the annual licence fees payable by the Company for using the Trademark are RMB10,000,000 for each of 2018, 2019 and 2020 and the annual licence fees shall be paid by the Company to SXPGC on or before 30 June of each of 2018, 2019 and 2020. Other terms of the Trademark Licence Agreement remain unchanged.

The 2017 Supplemental Trademark Licence Agreement will come into effect on 1 January 2018 and will expire on 31 December 2020. It is a term of the 2017 Supplemental Trademark Licence Agreement that each of the Company and SXPGC is entitled to terminate the 2017 Supplemental Trademark Licence Agreement by a three months' written notice in advance.

As at the date of this announcement, SXPGC holds 32.94% equity interest of the Company and is the controlling shareholder of the Company (as defined under the Listing Rules). Therefore, SXPGC is a connected person under the Listing Rules. The transactions contemplated under the 2017 Supplemental Trademark Licence Agreement will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

The annual cap under the 2017 Supplemental Trademark Licence Agreement for each of 2018, 2019 and 2020 will be RMB10,000,000. Since the applicable percentage ratios (as defined in the Listing Rules) are less than 5% on an annual basis, the continuing connected transactions contemplated under the 2017 Supplemental Trademark Licence Agreement are only subject to the announcement, annual review and reporting requirements, but exempt from the Disinterested Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Board announces that on 30 October 2017, the Company entered into the 2017 Supplemental Trademark Licence Agreement with SXPGC.

A. BACKGROUND INFORMATION

Reference is made to the announcements of the Company dated 28 October 2009, 23 March 2012 and 27 October 2014.

On 7 December 1996, the Company and SXPGC entered into the Trademark Licence Agreement pursuant to which the Company was granted by SXPGC the exclusive right to use the Trademark for its existing and future products in and outside the PRC for an indefinite period as long as the PRC registration of the Trademark continues to be valid and the Company continues to use the Trademark.

On 23 March 2012 and 27 October 2014, the Company and SXPGC entered into the 2012 Supplemental Trademark Licence Agreement and 2014 Supplemental Trademark Licence Agreement which amended and supplemented the Trademark Licence Agreement. Pursuant to the 2012 Supplemental Trademark Licence Agreement and the 2014 Supplemental Trademark Licence Agreement, the Company was granted by SXPGC the exclusive right to use the Trademark for the periods between 1 April 2012 and 31 December 2014 and between 1 January 2015 and 31 December 2017 respectively.

B. CONTINUING CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND SXPGC

Principal terms of the 2017 Supplemental Trademark Licence Agreement

Date : 30 October 2017

Parties : (i) the Company
(ii) SXPGC

On 30 October 2017, the Company and SXPGC entered into the 2017 Supplemental Trademark Licence Agreement amending and supplementing the Trademark Licence Agreement as amended by the 2012 Supplemental Trademark Licence Agreement and the 2014 Supplemental Trademark Licence Agreement. Pursuant to the 2017 Supplemental Trademark Licence Agreement, the annual licence fees payable by the Company for using the Trademark will be RMB10,000,000 for each of 2018, 2019 and 2020 and the Company shall pay the annual licence fees to SXPGC on or before 30 June of each of 2018, 2019 and 2020. Other terms of the Trademark Licence Agreement remain unchanged.

The 2017 Supplemental Trademark Licence Agreement will come into effect on 1 January 2018 and will expire on 31 December 2020, and each of the Company and SXPGC is entitled to terminate the 2017 Supplemental Trademark Licence Agreement by a three months' written notice in advance.

Basis upon which the caps are determined

In determining the caps, the Company has taken into consideration of the following factors:

- (a) the historical annual licence fees paid by the Company for using the Trademark under the 2014 Supplemental Trademark Licence Agreement, which are the same as the annual licence fees payable by the Company under the 2017 Supplemental Trademark Licence Agreement;
- (b) the branding effect of the Trademark; and
- (c) the scale of sale of the products that uses the Trademark.

Reasons for and benefits of the continuing connected transactions between the Company and SXPGC

By virtue of the Trademark Licence Agreement as amended and supplemented by the 2012 Supplemental Trademark Licence Agreement, the 2014 Supplemental Trademark Licence Agreement and the 2017 Supplemental Trademark Licence Agreement, the Group will be able to continue to use the Trademark on marketing and the current and future production of its products in and outside the PRC which is conducive to the continued operation of the Company under its established brand and image. The Directors (including the independent non-executive Directors of the Company) consider that:

- (a) the entering into the 2017 Supplemental Trademark Licence Agreement is in the interest of the Company and its Shareholders as a whole;

- (b) the continuing connected transactions contemplated under the 2017 Supplemental Trademark Licence Agreement are on normal commercial terms and in the ordinary and usual course of business; and
- (c) the terms of the continuing connected transactions contemplated under the 2017 Supplemental Trademark Licence Agreement are fair and reasonable.

Save for Mr. Zhang Daiming, Mr. Ren Fulong, Mr. Xu Lie and Mr. Zhao Bin who by virtue of their respective posts at SXPGC or HHGC have abstained from voting on the board resolution in relation to the 2017 Supplemental Trademark Licence Agreement, none of the Directors have a material interest in the continuing connected transactions under the 2017 Supplemental Trademark Licence Agreement and were required to abstain from voting on the board resolution thereon.

Connected relationship

As at the date of this announcement, SXPGC directly holds 32.94% equity interest in the Company and is the controlling shareholder of the Company (as defined under the Listing Rules). Therefore, SXPGC is a connected person under the Listing Rules. The transactions contemplated under the 2017 Supplemental Trademark Licence Agreement will constitute continuing connected transactions under the Listing Rules.

Implications under the Listing Rules

The annual cap for each of 2018, 2019 and 2020 under the 2017 Supplemental Trademark Licence Agreement will be RMB10,000,000. Since the applicable percentage ratios (as defined in the Listing Rules) are less than 5% on an annual basis, the continuing connected transactions contemplated under the 2017 Supplemental Trademark Licence Agreement are only subject to the announcement, annual review and reporting requirements, but exempt from the Disinterested Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Information about the Company and SXPGC

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

SXPGC is a state-owned enterprise established in the PRC specialising in investment in the pharmaceutical industry, and associated chemical production, packaging and supply of chemical engineering equipment.

C. DEFINITIONS

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

“2012 Supplemental Trademark Licence Agreement”	means the supplemental trademark licence agreement dated 23 March 2012 entered into between the Company and SXPGC amending and supplementing the Trademark Licence Agreement;
“2014 Supplemental Trademark Licence Agreement”	means the supplemental trademark licence agreement entered into between the Company and SXPGC on 27 October 2014 amending and supplementing the Trademark Licence Agreement;
“2017 Supplemental Trademark Licence Agreement”	means the supplemental trademark licence agreement entered into between the Company and SXPGC on 30 October 2017 amending and supplementing the Trademark Licence Agreement;
“Board”	means the board of Directors of the Company;
“Company”	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;
“Directors”	means the directors of the Company including the independent non-executive directors of the Company;
“Disinterested Shareholders”	means the Shareholders other than any Shareholders interested in the transactions contemplated under the 2017 Supplemental Trademark Licence Agreement;
“Group”	means the Company and its subsidiaries;
“HHGC”	means 華魯控股集團有限公司 (Hualu Holdings Group Company Limited*), a wholly state-owned company, the direct controlling shareholder of SXPGC and indirect controlling shareholder of Well Bring Limited, which as of the date of this announcement hold 32.94% and 2.86% equity interest in the Company;
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange;

“PRC”	means the People’s Republic of China;
“RMB”	means Renminbi, the lawful currency of the PRC;
“Trademark”	means the trademark “新華” (“Xinhua”*);
“Trademark Licence Agreement”	means the trademark licence agreement dated 7 December 1996 entered into between the Company and SXPGC (as amended and supplemented from time to time by the 2012 Supplemental Trademark Licence Agreement, the 2014 Supplemental Trademark Licence Agreement and the 2017 Supplemental Trademark Licence Agreement);
“Shareholders”	means the shareholders of the Company;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited; and
“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 as of the date of this announcement directly holds 32.94% of the total issued share capital of the Company.

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

30 October 2017, Zibo, PRC

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

Executive Directors:

Mr. Zhang Daiming (*Chairman*)
Mr. Du Deping

Independent Non-executive Directors:

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

Non-executive Directors:

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

* for identification purpose only