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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Shandong Xinhua Pharmaceutical Company Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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) CONTINUING CONNECTED TRANSACTIONS; AND
(2) NOTICE OF EGM

A letter from the Board is set out on pages 1 to 20 of this circular.

A notice convening the EGM to be held at the conference room of the Company at No. 1 Lutai Ave., Hitech District, Zibo City, Shandong Province, PRC on Friday, 6 December 2024 at 2:00 p.m. is set out in pages N-1 to N-5 of this circular. The proxy form and reply slip in relation to the EGM are enclosed and are published and available for downloading on the websites of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk and of the Company at <http://www.xhzy.com>.

Whether or not you intend to attend the EGM, we encourage you to complete and return the proxy form in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours prior to the commencement of the EGM (or any adjournments thereof). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish. Shareholders who intend to attend the EGM should also complete and return the reply slip in accordance with the instructions printed thereon.

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DEFINITIONS

In this circular, a reference to one gender includes a reference to other genders, and 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
“API”	active pharmaceutical ingredient
“associate(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Board”	the board of Directors of the Company
“CCT Agreements”	collectively, the Shandong Lukang Agreement, the China Shandong Agreement, the Hualu Hengsheng Agreement and the Shandong Huatong Agreement
“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 share capital of which is held as to 99.75% by, and is a subsidiary of, HHC as of the date of this circular
“China Shandong Agreement”	the agreement entered into between the Company and China Shandong Group on 29 October 2024 as described in this circular
“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 Hong Kong Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules

DEFINITIONS

“Director(s)”	director(s) of the Company
“EGM”	the second extraordinary general meeting of the Shareholders in 2024, including any adjournment thereof, to approve, among others, the CCT Agreements and the transactions contemplated thereunder described in this circular
“Group”	the Company and its subsidiaries from time to time
“Hong Kong 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
“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 share capital of which is indirectly held as to approximately 32.06% by HHC as of the date of this circular
“Hualu Hengsheng Agreement”	the agreement entered into between the Company and Hualu Hengsheng on 29 October 2024 as described in this circular
“Hualu Investment”	Hualu Investment Development Co., Ltd (華魯投資發展有限公司), a company incorporated in the PRC and is a direct wholly owned subsidiary of HHC
“HHC”	Hualu Holdings Co. Ltd. (華魯控股集團有限公司), a company incorporated in the PRC and directly holding approximately 30.02% of the total number of Shares of the Company in issue as of the date of this circular

DEFINITIONS

“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
“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
“Latest Practicable Date”	6 November 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“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 circular
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Relevant CCT Proposals”	collectively, the proposals concerning the entering into of the CCT Agreements, their respective annual caps and the continuing connected transactions contemplated thereunder
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Huatong”	Shandong Huatong Chemical Co., Ltd. (山東華通化工有限責任公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of HHC as of the date of this circular

DEFINITIONS

“Shandong Huatong Agreement”	the agreement entered into between the Company and Shandong Huatong on 29 October 2024 as described in this circular
“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 share capital of which is indirectly held as to approximately 20.69% 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 circular
“Shandong Lukang Agreement”	the agreement entered into between the Company and Shandong Lukang on 29 October 2024 as described in this circular
“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

Certain English translations of Chinese names or words marked with “” in this circular are included for reference purpose only and should not be regarded as the official English translations of such Chinese names or words.*

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. He Tongqing (*Chairman*)
Mr. Xu Wenhui
Mr. Hou Ning

Non-executive Directors:

Mr. Xu Lie
Mr. Zhang Chengyong

Independent Non-executive Directors:

Mr. Pan Guangcheng
Mr. Zhu Jianwei
Mr. Ling Peixue
Ms. Cheung Ching Ching, Daisy

Registered Address:

Chemical Industry Area of Zibo Hi-tech
Industry Development Zone,
Zibo City,
Shandong Province, PRC

Principal Place of Office

No. 1 Lutai Ave.,
Hi-tech Industry Development Zone,
Zibo City,
Shandong Province,
the PRC

13 November 2024

To Shareholders

Dear Sir or Madam,

I. INTRODUCTION

Reference is made to the Company's announcement dated 29 October 2024 and the Notice of EGM. The purpose of this circular is to provide you with the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the resolutions to be proposed at the EGM.

At the EGM, ordinary resolutions will be proposed to approve the CCT Agreements, their respective annual caps and the continuing connected transactions contemplated thereunder.

LETTER FROM THE BOARD

II. CONTINUING CONNECTED TRANSACTIONS

A. Background information

Reference is made to the announcements of the Company dated 29 October 2024 and 23 November 2021 and the circular of the Company dated 15 December 2021 and the annual reports of the Company for each of the years ended 31 December 2021, 2022 and 2023 in relation to certain continuing connected transactions and a related party transaction of the Company concerning the procurement or supply of certain pharmaceutical related products and drugs. The relevant agreements concerning such transactions are due to expire on 31 December 2024.

As the Group expects to continue procuring and supplying certain pharmaceutical related products and drugs from and to the connected persons (including associates of HHC) and related parties of the Company referred to in the above announcements and circular of the Company, the Company has entered into the Shandong Lukang Agreement, the China Shandong Agreement, the Hualu Hengsheng Agreement with Shandong Lukang, China Shandong Group, Hualu Hengsheng, respectively, on 29 October 2024, to renew the continuing connected transactions and related party transaction contemplated thereunder for a term from 1 January 2025 to 31 December 2027, respectively.

Further, the Group would like to purchase chemical materials from Shandong Huatong for the purpose of production of chemical raw materials and has on 29 October 2024 entered into the Shandong Huatong Agreement pursuant to which the Group shall purchase chemical materials from Shandong Huatong for a term from 1 January 2025 to 31 December 2027.

The purpose of this circular is to set out the terms and details of the continuing connected transactions and related party transaction constituted by the CCT Agreements and the proposed annual caps in respect of the continuing connected transactions for the years ending 31 December 2025, 2026 and 2027, respectively.

B. Renewal of the Shandong Lukang Agreement

Reference is made to the announcements of the Company dated 29 October 2024 and 23 November 2021 and the circular of the Company dated 15 December 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 pharmaceutical preparation products and APIs by the Group from, and the sale of pharmaceutical intermediaries and APIs and provision of engineering design services by the Group to, Shandong Lukang and/or its subsidiaries over the period commencing from 1 January 2022 to 31 December 2024 (both dates inclusive) (the “Existing Shandong Lukang Agreement”). As the Existing Shandong

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Lukang Agreement shall expire on 31 December 2024, 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 29 October 2024 (after trading hours) to renew the Existing Shandong Lukang Agreement.

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

Date

29 October 2024

Parties

1. The Company; and
2. Shandong Lukang

Term

From 1 January 2025 to 31 December 2027 (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 Group shall purchase pharmaceutical preparation products and APIs from Shandong Lukang and/or its subsidiaries.

The Group 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 (as applicable) with reference to:

- (i) the Pricing Policy; and

LETTER FROM THE BOARD

- (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 paid to or received from Shandong Lukang and/or its subsidiaries under the Shandong Lukang Agreement 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 2025, 2026 and 2027:

	Historical amounts			Proposed annual cap		
	<i>(in RMB'000) for the year ended/ ending 31 December</i>			<i>(in RMB'000) for the year ending 31 December</i>		
	2022	2023	2024	2025	2026	2027
	(audited)	(audited)	(expected, unaudited)			
Purchase of pharmaceutical preparation products and APIs by the Group from Shandong Lukang and/or its subsidiaries	12,015	7,655	10,850	12,000	13,000	14,000
Sale of pharmaceutical intermediaries, APIs and provisions of engineering design services by the Group to Shandong Lukang and/or its subsidiaries	4,027	7,242	8,160	41,000	42,000	42,000
Total	16,042	14,897	19,010	53,000	55,000	56,000

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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.

C. Renewal of the China Shandong Agreement

Reference is made to the announcements of the Company dated 29 October 2024 and 23 November 2021 and the circular of the Company dated 15 December 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 2022 to 31 December 2024 (both dates inclusive) (the “**Existing China Shandong Agreement**”). On 29 October 2024 (after trading hours), the Company has entered into the China Shandong Agreement with China Shandong Group pursuant to which the Group shall purchase preparation products from China Shandong Group and ceased selling chemical drug products and chemical products to China Shandong Group upon the expiration of the Existing China Shandong Agreement on 31 December 2024. The Group ceased selling products to China Shandong Group mainly because China Shandong Group’s customer demand decreased significantly year by year; and started purchasing products from China Shandong Group will help the Group expand international procurement channels and expand business scale.

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

Date

29 October 2024

Parties

1. The Company; and
2. China Shandong Group

Term

From 1 January 2025 to 31 December 2027 (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 Group shall purchase preparation products from China Shandong Group.

Pricing

The price of preparation products to be purchased from China Shandong Group shall be determined through arm's length negotiations with China Shandong Group and/or its subsidiaries (as applicable) 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 paid to China Shandong Group under the China Shandong Agreement 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.

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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 2025, 2026 and 2027:

	Historical amounts (in RMB'000) for the year ended/ ending 31 December			Proposed annual cap (in RMB'000) for the year ending 31 December		
	2022 (audited)	2023 (audited)	2024 (expected, unaudited)	2025	2026	2027
Sale of chemical drug products and chemical products by the Company to China Shandong Group and/or subsidiaries	19,507	13,703	2,227	Nil	Nil	Nil
Purchase of preparation products	Nil	Nil	Nil	11,000	16,000	21,000

Basis for the proposed annual caps

The proposed annual caps under the China Shandong Agreement was arrived at after taking into account (i) the expected demand for the preparation products to be purchased by the Group from China Shandong Group based on discussions with China Shandong Group; (ii) the prevailing market price as well as market price trend for preparation products to be purchased under the agreement; and (iii) the anticipated business volume of the Group and market demand.

D. Renewal of the Hualu Hengsheng Agreement

Reference is made to the announcements of the Company dated 29 October 2024 and 23 November 2021 and the circular of the Company dated 15 December 2021 in relation to the purchase by the Group of chemical raw materials from Hualu Hengsheng over the period commencing from 1 January 2022 to 31 December 2024 (both dates inclusive) (the “**Existing Hualu Hengsheng Agreement**”). As the Existing Hualu Hengsheng Agreement shall expire on 31 December 2024, 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 29 October 2024 (after trading hours) to renew the Existing Hualu Hengsheng Agreement.

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

Date

29 October 2024

Parties

1. The Company; and
2. Hualu Hengsheng

Term

From 1 January 2025 to 31 December 2027 (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 Group 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 (as applicable) 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 paid to Hualu Hengsheng and/or its subsidiaries under the Hualu Hengsheng Agreement 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.

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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 2025, 2026 and 2027:

	Historical amounts (in RMB'000) for the year ended/ ending 31 December			Proposed annual cap (in RMB'000) for the year ending 31 December		
	2022	2023	2024	2025	2026	2027
			(expected, (audited)			
		(audited)	unaudited)			
Purchase of chemical raw materials by the Group from Hualu Hengsheng and/or its subsidiaries	183,629	135,173	95,650	120,000	120,000	120,000

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.

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

E. Entering into of the Shandong Huatong Agreement

On 29 October 2024, the Group and Shandong Huatong entered into the Shandong Huatong Agreement pursuant to which the Group shall purchase chemical materials from Shandong Huatong for a term from 1 January 2025 to 31 December 2027.

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

Date

29 October 2024

Parties

1. The Company; and
2. Shandong Huatong

Term

From 1 January 2025 to 31 December 2027 (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 Group shall purchase chemical raw materials from Shandong Huatong and/or its subsidiaries.

Pricing

The price of chemical raw materials to be purchased from Shandong Huatong and/or its subsidiaries shall be determined through arm's length negotiations with Shandong Huatong and/or its subsidiaries (as applicable) 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 paid to Shandong Huatong and/or its subsidiaries under the Shandong Huatong Agreement 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.

LETTER FROM THE BOARD

Historical amounts and proposed annual caps

The following table summarises the annual caps proposed by the Board in respect of the transactions under the Shandong Huatong Agreement for the years ending 31 December 2025, 2026 and 2027:

	Historical amounts			Proposed annual cap		
	<i>(in RMB'000) for the year ended/</i>			<i>(in RMB'000) for the year</i>		
	ending 31 December			ending 31 December		
2022	2023	2024	2025	2026	2027	
		(expected,				
	(audited)	(audited)	unaudited)			
Purchase of chemical raw materials by the Group from Shandong Huatong and/or its subsidiaries	Nil	Nil	Nil	117,000	119,000	122,000

Basis for the proposed annual caps

The proposed annual cap under the Shandong Huatong Agreement was arrived at after taking into account (i) the expected demand for the chemical raw materials to be purchased by the Group from Shandong Huatong 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; (ii) the prevailing market price as well as market price trend for chemical raw materials to be purchased under the agreement; and (iii) the anticipated business volume and production capacity of the Company.

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

LETTER FROM THE BOARD

F. Pricing policy

The Pricing Policy for the transactions contemplated under each of the CCT 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 preparation products by the Group from China Shandong Group under the China Shandong Agreement• purchase chemical raw materials from Shandong Huatong and/or its subsidiaries under the Shandong Huatong 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	<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> <ul style="list-style-type: none">(i) the actual costs incurred plus a reasonable profit margin (with reference to the general range of profit in the industry).

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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.

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.

- (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.

LETTER FROM THE BOARD

Relevant transactions in relation to provision of engineering design services

- provision of engineering design services by the Company to Shandong Lukang under the Shandong Lukang Agreement

Pricing policy

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:

- (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.

G. Internal controls

To ensure that the continuing connected transactions and related party transaction contemplated under the CCT 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 CCT Agreements before entering into such transactions to ensure that they are on normal commercial terms;

LETTER FROM THE BOARD

- (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 CCT 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 CCT 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 Hong Kong Listing Rules.

H. Reasons for and benefits of the continuing connected transactions contemplated under the CCT Agreements

By entering into the Shandong Lukang Agreement, the Group 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 Group is able to broaden its international procurement channels and expand the scale of relevant business operations.

By entering into the Hualu Hengsheng Agreement, the Group is able to minimise procurement costs by reducing intermediate layers as well as secure a steady supply of chemical products.

By entering into the Shandong Huatong Agreement, the Group can obtain payment extensions, effectively alleviate financial pressure and ensure a stable supply of chemical products.

LETTER FROM THE BOARD

I. Listing Rules implications

Connected persons and related persons of the Company

Each of Shandong Lukang (the board of directors of which is controlled by HHC), China Shandong Group (the share capital of which is held as to 99.75% by HHC), Shandong Huatong (the share capital of which is indirectly wholly-owned by HHC) and Hualu Hengsheng (the share capital of which is indirectly held as to approximately 32.06% 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 Hong Kong Listing Rules. The CCT Agreements therefore constitute continuing connected transactions of the Company.

Listing Rules implications concerning CCT Agreements

Since the CCT Agreements 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 CCT Agreements should be aggregated as if they were one transaction pursuant to Rule 14A.81 of the Hong Kong Listing Rules.

As (i) the applicable percentage ratios (other than the profits ratio) under the Hong Kong Listing Rules for the transactions contemplated under the CCT Agreements calculated on an aggregated basis is more than 0.1% but less than 5% on an annual basis; (ii) the continuing connected transactions contemplated under the CCT Agreements are conducted on normal commercial terms; and (iii) the Board (including all the independent non-executive Directors of the Company) has approved the continuing connected transactions under the CCT Agreements and confirmed that the terms of the continuing connected transactions thereunder are conducted on normal commercial terms, the transactions contemplated under the CCT Agreements are subject to the reporting, announcement, annual review and certain other requirements applicable to continuing connected transactions, but are exempt from the circular (including independent financial advice) and Independent Shareholders' approval requirements, under Chapter 14A of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

As the A Shares are listed on the Shenzhen Stock Exchange, the Company is subject to and regulated by the Shenzhen Listing Rules. According to the Shenzhen Listing Rules and the articles of association of the Company, the CCT Agreements and the transactions contemplated thereunder are required to be submitted the general meeting of the Company for consideration and approval. An EGM will be convened to consider and, if thought fit, pass resolutions to approve the transactions in respect of the CCT Agreements. HHC and its associates will be required to abstain from voting at the EGM.

J. Information of the parties to the CCT 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.

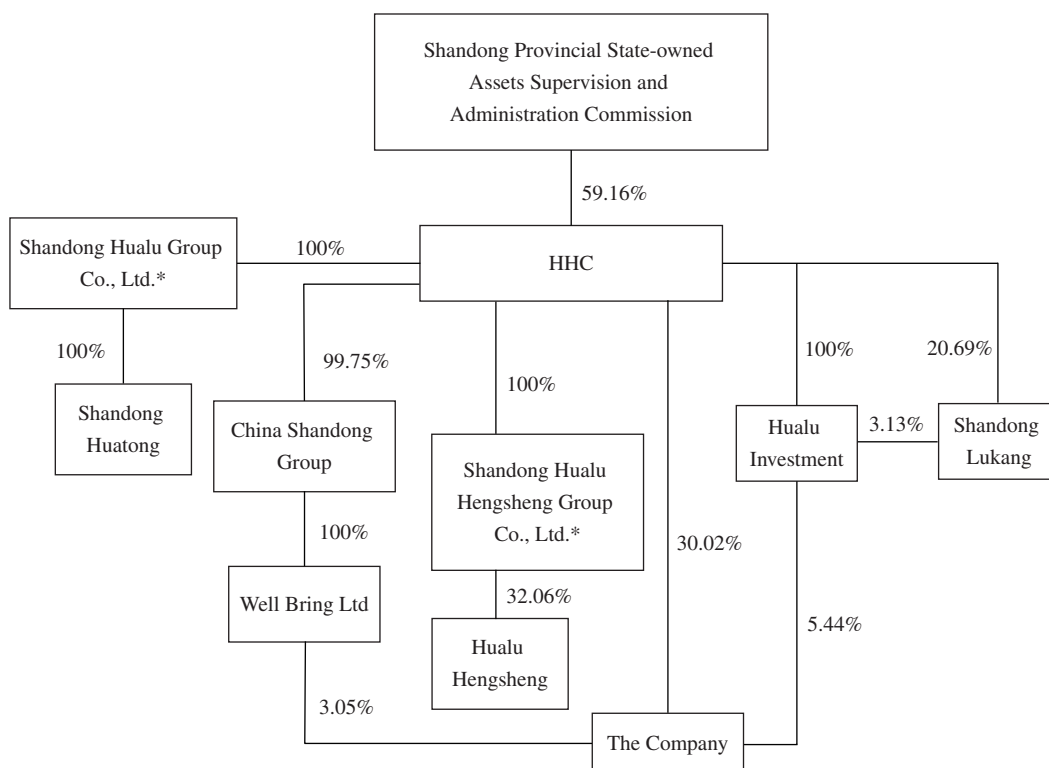
China Shandong Group is a company incorporated in Hong Kong with limited liability and its principal businesses include project investment and import and export trade.

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.

Shandong Huatong is a company incorporated in the PRC with limited liability and its principal businesses include, business of hazardous chemicals; import and export of goods; sales of chemical products, etc..

LETTER FROM THE BOARD

As of the date of this circular, the following chart shows the shareholding relationship between the Group and each of Shandong Lukang, China Shandong Group, Hualu Hengsheng and Shandong Huatong:



* For indication only

K. Approval by the Board

The Board (including the independent non-executive Directors, but excluding Mr. Zhang Chenyong (who has abstained from voting in respect of the CCT Agreements) (collectively, “**Interested Directors**”) who are considered to have a material interest in the CCT 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 CCT Agreements and are of the view and resolved, in a duly convened meeting of the Board, that the CCT 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 CCT Agreements and were required to abstain from voting, or abstained from voting, on the relevant resolutions of the Board concerning approval of the CCT Agreements.

LETTER FROM THE BOARD

L. Approval by Independent Shareholders

The Company will seek the Independent Shareholders' approval of 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.

III. EGM

The CCT Agreements, their respective annual caps and the continuing connected transactions contemplated thereunder are subject to the approval of the Independent Shareholders by way of ordinary resolutions at the EGM. Any Shareholder with a material interest in the CCT Agreements or continuing connected 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 CCT Agreements, their respective annual caps and transactions contemplated thereunder at the EGM.

Save as disclosed above, to the best knowledge and belief of the Directors, none of the Shareholders would be required to abstain from voting on the proposed resolutions at the EGM.

The following documents were despatched by the Company to Shareholders on or around the date of this circular, and have been published and made available for downloading on the websites of Hong Kong Stock Exchange at <http://www.hkex.com.hk> and of the Company at <http://www.xhzy.com>:

- (i) the notice of EGM convening the EGM to be held at the conference room of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, the PRC on Friday, 6 December 2024 at 2:00 p.m.; and
- (ii) the proxy forms for use at and the reply slips in relation to the EGM.

LETTER FROM THE BOARD

For the purpose of determining the entitlement of H Shareholders to attend and vote at the EGM, the register of members of the Company for H Shares will be closed from Friday, 29 November 2024 to Friday, 6 December 2024, both days inclusive. In order to qualify for attending and voting at the EGM, unregistered H Shareholders should ensure that all transfer documents for H Shares together with the relevant share certificates should be lodged for registration with the Company's Hong Kong share registrar for H Shares, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Thursday, 28 November 2024.

IV. RECOMMENDATIONS

The Board considers the CCT Agreements, their respective annual caps and the continuing connected transactions contemplated thereunder fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board would recommend the Independent Shareholders to vote in favour of the relevant resolutions at the EGM to approve the CCT Agreements, their respective annual caps and the continuing connected transactions contemplated thereunder.

Yours faithfully,

By Order of the Board
Shandong Xinhua Pharmaceutical Company Limited
He Tongqing
Chairman

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTERESTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, the following Directors and Supervisors are interested in the securities (namely A Shares) of the Company:

Name	Position	Number of A Shares	Approximate percentage of shareholding in total issued A Shares	Approximate percentage of shareholding in total issued share capital
Directors:				
Mr. He Tongqing	Chairman	291,950	0.0599%	0.0428%
Mr. Xu Wenhui	Executive Director, General Manager	242,000	0.0497%	0.0355%
Mr. Xu Lie	Non-executive Director	291,950	0.0599%	0.0428%
Mr. Zhang Chengyong	Non-executive Director	Nil	–	–
Mr. Hou Ning	Executive Director, Financial Controller	328,800	0.0675%	0.0482%
Mr. Pan Guangcheng	Independent non- executive Director	Nil	–	–
Mr. Zhu Jianwei	Independent non- executive Director	Nil	–	–

Name	Position	Number of A Shares	Approximate	Approximate
			percentage of shareholding in total issued A Shares	percentage of shareholding in total issued share capital
Mr. Ling Peixue	Independent non- executive Director	Nil	–	–
Ms. Cheung Ching Ching, Daisy	Independent non- executive Director	Nil	–	–
Supervisors:				
Mr. Liu Chengtong	Chairman of Supervisory Committee	Nil	–	–
Mr. Tao Zhichao	Independent Supervisor	Nil	–	–
Ms. Hu Yanhua	Employee Supervisor	Nil	–	–
Mr. Wang Jianping	Employee Supervisor	Nil	–	–
Mr. Xiao Fangyu	Independent Supervisor	Nil	–	–

Notes:

1. All interests in the Shares of the Company owned by the Directors, Supervisors and Senior Management of the Company are long position in A Shares.
2. So far as the Directors, the Senior Management and Supervisors are aware, save as disclosed above, as at the Latest Practicable Date, no Director, Senior Management and Supervisor had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the SFO (Chapter 571 of the Laws of Hong Kong)) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, Senior Management or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix C3 to the Listing Rules.

3. MATERIAL INTEREST

As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors had a material interest in the CCT Agreements and the continuing connected transactions contemplated thereunder.

As at the Latest Practicable Date, none of the Company, its holding company and fellow subsidiaries of its controlling shareholder had entered into any contracts in relation to the Group's business in which any Directors or Supervisors had a material interest, whether directly or indirectly.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

4. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in any business which competes or was likely to compete, either directly or indirectly, with the business of the Group.

5. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors, the persons (other than a Director, a Supervisor or chief executive of the Company) who had an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was (other than HKSCC (Nominees) Limited), directly or indirectly, interested in 10% or more of the nominal value of any class of Shares carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name of Shareholder	Class of Shares	Number of Shares held	Percentage of the total issued Shares (%)
HHC <i>(Note 1)</i>	A Shares	204,864,092	30.02%

Note 1: Such figure excludes the 37,091,988 A Shares held by Hualu Investment Co. Ltd (“**Hualu Investment**”), a direct wholly owned subsidiary of HHC. Hualu Investment is a direct wholly owned subsidiary of HHC and Well Bring Limited (“**Well Bring**”) is directly wholly-owned by China Shandong Group which is in turn held as to 99.75% by HHC. As of the Latest Practicable Date, Hualu Investment owns 37,091,988 A Shares of the Company, representing approximately 5.44% of the issued share capital of the Company. Well Bring owns 20,827,800 H Shares of the Company (being overseas listed foreign shares), representing approximately 3.05% of the issued share capital of the Company, the legal title of which are deposited into the clearing system of the SEHK and held by HKSCC Nominees Limited.

6. MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the overall financial or trading position or outlook of the Group since 31 December 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

7. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors and Supervisors had entered into, or proposed to enter into, a service contract with the Company or any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation, other than statutory compensation.

8. VOTE BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, the vote of Shareholders at the EGM shall be taken by poll.

9. DOCUMENTS AVAILABLE FOR INSPECTION AND ON DISPLAY

In relation to the renewal of continuing connected transactions under CCT Agreements, a copy of this circular will be available on display online on the Stock Exchange’s website through e-Submission System and on the Company’s website from the date of this circular up to and including the date of the EGM.

NOTICE OF EGM



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“EGM”) of Shandong Xinhua Pharmaceutical Company Limited (the “**Company**”) will be held at the Company’s conference room at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, The People’s Republic of China (the “**PRC**”) on Friday, 6 December 2024 at 2:00 p.m. for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as resolutions.

Unless the context otherwise requires, terms defined in the circular to the shareholders of the Company dated 13 November 2024, of which this notice forms part (the “**Circular**”) shall have the same meaning when used herein.

The details of the EGM are as follows:

A. CONVENING OF THE EGM

1. Time of the EGM

The EGM will commence at 2:00 p.m. on Friday, 6 December 2024.

2. Venue of the EGM

The EGM will be held at the Company’s conference room at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, the PRC.

NOTICE OF EGM

3. Convenor

The EGM will be convened by the Board.

4. Ways of conducting the EGM

The A Shareholders or the duly appointed proxies thereof may vote at the EGM by way of physical voting or online voting, whereas the H Shareholders or the duly appointed proxies thereof may vote at the EGM by way of physical voting.

5. Eligible attendees

(1) *Shareholders*

All the A Shareholders whose names appear on the register of members, kept by China Securities Depository and Clearing Corporation Limited, Shenzhen Office, as at the close of A share trading session on Shenzhen Stock Exchange on Thursday, 28 November 2024.

For information on the attendance of the A Shareholders, please refer to the notice(s) to A Shareholders in respect of the EGM published by the Company on the website of the Shenzhen Stock Exchange of even date.

All the H Shareholders whose names appear on the register of members of H Shares at 4:30 p.m. on Thursday, 28 November 2024.

(2) Proxies duly appointed by the Shareholders;

(3) Directors, supervisors and senior management (with the meaning ascribed under rule 2A.09 of the Listing Rules (the “**Senior Management**”) of the Company;

(4) Legal advisers to the Company; and

(5) Auditors of the Company.

NOTICE OF EGM

B. MATTERS FOR CONSIDERATION AND APPROVAL AT THE EGM

The following resolutions will be submitted for consideration and approval at the EGM:

ORDINARY RESOLUTIONS ^{Note 11}

To consider and approve each of the Shandong Lukang Agreement, the China Shandong Agreement, the Hualu Hengsheng Agreement and the Shandong Huatong Agreement (the “CCT Agreements”), their respective annual caps and the continuing connected transactions contemplated thereunder.

Notes:

1. The register of members of the Company will be closed from 29 November 2024 to 6 December 2024 (both days inclusive), during which period no H Share transfers of the Company will be registered. Shareholders whose names appear on the register of members of the Company kept by the Computershare Hong Kong Investor Services Limited at 4:30 p.m. on Thursday, 28 November 2024 and on the register of members kept by the China Securities Registrar Company Limited Shenzhen Branch after the closing of Shenzhen Stock Exchange on Thursday, 28 November 2024 and the Directors, the supervisors and the Senior Management are entitled to attend the EGM or any adjournment thereof.
2. H Shareholders who wish to attend the EGM shall lodge their share transfer instruments accompanied by the relevant share certificates with the share registrar for the Company’s H Shares not later than 4:30 p.m. on 28 November 2024.

The address of the share registrar for the Company’s H Shares:

Computershare Hong Kong Investor Services Limited

Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen’s Road East
Wan Chai
Hong Kong

3. Shareholders who intend to attend the EGM are requested to send the completed and signed reply slip for attendance despatched to the Company’s shareholders together with this notice to the office of the secretary to the Board (see Note 8 below) or to the share registrar for the Company’s H Shares (see Note 2 above) on or before 2:00 p.m. on 5 December 2024, by hand, by post or by facsimile. The written reply will not affect the right of the Shareholders to attend and vote at the EGM.
4. Shareholders entitled to attend and vote at the EGM may appoint one or more proxies (whether the person is a shareholder or not) to attend and vote on his/her/its behalf at the EGM. When a Shareholder appoints more than one proxy, such proxies may only vote by way of poll.

NOTICE OF EGM

5. Shareholders may only appoint a proxy or proxies in writing i.e. the proxy form despatched to the Company's shareholders together with this notice or a copy of it, which shall be in compliance with the instructions thereon and signed by the person appointing the proxy or proxies or by his/her/its duly authorised attorney. If the form of proxy is signed by an attorney, the document appointing the attorney must be certified by a notary public. If the appointing shareholder is a legal entity, its seal or the signature of its director(s) or representative(s) duly authorized in writing is required. To be valid, a notarially certified power of attorney or other authority (if any) and the forms of proxy must be received by the office of the secretary to the Board (see Note 8 below) 24 hours prior to the commencement of the EGM. The completion and deposit of a form of proxy will not preclude any Shareholder from attending and voting in person at the EGM or any adjournment thereof.
6. Shareholders or their proxies shall present proof of identity upon attending the EGM. Should a proxy be appointed, the proxy shall also present his/her form of proxy.
7. The EGM is expected to last half a day. Shareholders who attend the EGM shall bear their own traveling and accommodation expenses.
8. The address of the office of the secretary to the Board is as follows:

No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC
Postal Code: 255086
Telephone: 86 533 2196024
Facsimile: 86 533 2287508
9. All references to time herein refer to Hong Kong time.
10. For the arrangements applicable to the A Shareholders in respect of the EGM, please refer to the notice(s) to A Shareholders published by the Company on the website of the Shenzhen Stock Exchange of the even date.
11. The details of the CCT Agreements, their respective annual caps and the continuing connected transactions contemplated thereunder and the regulatory implications thereof have been set out in the Circular which has been despatched to H Shareholders as at the date of this notice.

NOTICE OF EGM

C. DOCUMENTS AVAILABLE FOR INSPECTION

Resolutions passed at the fifth meeting of the 11th session of the Board.

By Order of the Board
Shandong Xinhua Pharmaceutical Company Limited
He Tongqing
Chairman

13 November 2024, Zibo, PRC

As at the date hereof, the Board comprises:

Executive Directors:

Mr. He Tongqing (*Chairman*)

Mr. Xu Wenhui

Mr. Hou Ning

Non-executive Directors:

Mr. Xu Lie

Mr. Zhang Chenyong

Independent Non-executive Directors:

Mr. Pan Guangcheng

Mr. Zhu Jianwei

Mr. Ling Peixue

Ms. Cheung Ching Ching, Daisy