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: 0719)

CONNECTED TRANSACTION

CAPITAL CONTRIBUTION AGREEMENT

Reference is made to the announcements of the Company dated 22 October and 6 November 2018. Unless otherwise specified, capitalised terms used in this announcement shall have the same meanings as those defined in the abovementioned announcements.

The Company is pleased to announce it has been informed that the Tendering in respect of the Wanbo Interests ("**Tender**") has concluded and the Company has won the Tender at the Listing Price of RMB19,582,300.

CAPITAL CONTRIBUTION AGREEMENT

Following and as a result of the Company's winning the Tender, the Company has, in respect of the Wanbo Interests, entered into a capital contribution agreement (the "**Agreement**") as the incoming shareholder with SXPGC as the sole shareholder of Wanbo Chemical Industrial prior to the transactions thereunder, of which the principal terms are set out below:

Date

30 November 2018
(after the trading hour of the Stock Exchange)

Parties

1. The Company (as the incoming shareholder); and

2. SXPGC

Subject matter

The Company shall within 5 business days from the date of the Agreement make a capital contribution of RMB19,582,300 (the "**Capital Contribution**") in cash one-off to the bank account designated by SDPREC for the specific purpose of settlement of the businesses under the Agreement. The security deposit of RMB 1.9 million (the "**Security Deposit**") paid at the submission of the Bidding Application will be counted in and applied to set off part of the Capital Contribution. The Capital Contribution will be paid up with the internal resources of the Group of which RMB18,649,800 will be injected into the registered capital of Wanbo Chemical Industrial and RMB932,500 into the capital reserve thereof. Following the completion of transactions under the Agreement, the registered capital of Wanbo Capital will increase from RMB27.97 million to RMB46.62 million.

Wanbo Chemical Industrial is wholly owned by SXPGC. Subsequent to the completion of the transactions under the Agreement, 60% of the equity capital of Wanbo Chemical Industrial will be owned by SXPGC and 40% by the Company and the articles of association and corporate governance structure of Wanbo Chemical Industrial will be updated to reflect the new stockholding structure consequent on the Capital Contribution accordingly.

Condition

The Agreement shall take effect upon due execution of the parties and issuance of the Documentary Proof of the Property Right Transaction by SDPREC. SDPREC will release the Capital Contribution to Wanbo Chemical Industrial upon approval of the competent authorities in respect of the supervision and administration of State-owned assets of the PRC. As at the date of this announcement the relevant approval has been obtained.

Capital Contribution and Basis

The Capital Contribution amount of RMB19,582,300 was the Listing Price for the Wanbo Interests at which the Tender started. The Listing Price was set with reference to the valuation by SDTJXY Asset Valuation, a qualified valuation institution in the PRC.

According to the valuation report (the "**Valuation Report**") dated 18 May 2018 issued by the Valuer, as at 28 February 2018 (the "**Benchmark Date**") (rounded off to the nearest ten thousand):

(a) the carrying value (the "**Value**") of 100% equity interests of Wanbo Chemical Industrial was RMB29.4237 million by adopting the income approach of valuation; and

(b) the carrying value of the assets of Wanbo Chemical Industrial was RMB27.9015 million by adopting the asset-based approach of valuation.

The Valuer has considered the valuation results based on the abovementioned approaches and opined that (i) the difference is mainly due to the inability of the asset-based approach to include such factors which carry future profit-making abilities as goodwill, sale networks, trademarks, patents and approval documentation of pharmaceutical products; and (ii) the income approach is more suitable a basis than the asset-based approach for evaluating the total stockholders' equity interests of Wanbo Chemical Industrial considering that the value of such interests is not usually based on the costs for re-acquiring the assets of the target company but in the expectation of its future proceeds by market participants and that the intrinsic market value of Wanbo Chemical Industrial can be better reflected by the income approach. The Listing Price of the Tender being also the consideration for the Wanbo Interests represents approximately 40% of the enlarged equity capital based on the abovementioned Value and upon the Capital Contribution.

Subsequent to the completion of the transactions contemplated under the Agreement, Wanbo Chemical Industrial will be 40% owned by the Company in its equity capital and will not hence become a subsidiary (with the meanings ascribed thereto under the Listing Rules) of the Company. An extract of the Valuation Report containing the principal assumptions on which the valuation was based is set out as Appendix for incorporation in and appending to this announcement.

Liabilities

A party to the Agreement shall be liable to the other party for the damage consequent on a breach of the Agreement it commits and liquidated damages of an amount equivalent to 10% of the Capital Contribution.

REASONS FOR AND BENEFITS OF THE CAPITAL CONTRIBUTION

The Capital Contribution is expected to carry forward, inter alia, the Group's consolidation of its upstream medical intermediaries resources, its overall competitiveness and development in the industry and its result performance.

The Board and the independent non-executive Directors have considered and reviewed the terms and provisions of the Agreement and considered them fair, reasonable and the transaction contemplated thereunder was entered into on normal commercial terms and in the interests of the Company and its shareholders as a whole.

Mr. Zhang Daiming, Mr. Ren Fulong, Mr. Xu Lie, Mr. Zhao Bin, directors of the Company, have by virtue of their respective directorships or capacities as a member of the management of the controlling shareholder group abstained from voting on the Agreement and the transaction contemplated thereunder. Save as disclosed above, the Company is not aware of any other Directors who has a material interest therein.

INFORMATION OF THE TARGET COMPANY AND THE PARTIES TO THE AGREEMENT

The Company is a joint stock limited company incorporated in the PRC with its H shares and A shares listed on the 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.

SXPGC is a state-owned enterprise established in the PRC principally engaged in investments in the pharmaceutical industry and associated chemical production, packaging and supply of chemical engineering equipment. In 2009 SXPGC acquired from a non-wholly owned subsidiary 48.34% of the interests in the equity capital of Wanbo Chemical Industrial with a consideration of RMB18.58 million and Wanbo Chemical Industrial has since been a wholly-owned subsidiary of SXPGC.

Wanbo Chemical Industrial is a company incorporated in the PRC with limited liability and its principal businesses include and sale of such chemical products as dimethyl sulfate, isobutylbenzene, sulfuric acid (as by-products of dimethyl sulfate), 1,8-diazabicyclo(5,4,0)undec-7-ene, tetramethylguanidine and the sale of chemical raw materials. According to the audit report of Wanbo Chemical Industrial, its audited financial figures are as follows:

(Rounded off to RMB 0,000)

Item / Period	Total assets	Total liabilities	Owner's Equity	Operating Income	Operating profits	Net Profits (before income tax)	Net profits (after income tax)	Net cash flow from operating activities
Year ended 31 December 2015	4991	4542	449	7006	216	292	385	-286

Year ended 31 December 2016	5607	4772	834	8030	227	218	212	1249
Year ended 31 December 2017	5993	4559	1434	8275	647	604	447	491
Two months ended 28 February 2018	6024	4516	1508	1399	27	27	16	-426

LISTING RULES IMPLICATIONS

As at the date of this announcement, Wanbo Chemical Industrial is wholly owned by SXPGC, the controlling shareholder of the Company. Accordingly, the business contemplated under the Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios are more than 0.1% and less than 5%, the Capital Contribution (irrespective whether on its own or in aggregation with the Xincat Acquisition which was completed within a 12-month period with the Capital Contribution hereof and of which the details were disclosed in the announcement of the Company dated 6 November 2018) is subject to the reporting and announcement requirements but exempt from the circular, independent financial advice and disinterested shareholders' approval requirements under Chapter 14A of the Listing Rules.

PROFESSIONAL PARTY AND CONSENT

As at the date hereof, the Valuer, being a PRC qualified valuer, does not have any beneficial interests in the equity capital or shareholding of the members of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and has given and has not withdrawn its consents to the publication of this announcement, to the references to its names herein and to the incorporation of its statements in this announcement.

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

30 November 2018, Zibo, the 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. Lo Wah Wai

Non-executive Directors:
Mr. Ren Fulong
Mr. Xu Lie
Mr. Zhao Bin

APPENDIX[1]

AN EXTRACT OF THE VALUATION REPORT CONTAINING THE PRINCIPAL ASSUMPTIONS ON WHICH THE VALUATION WAS BASED

(I) General Assumptions

1. Transaction Assumption: it is assumed that all assets to be evaluated are in the process of transaction, and the Valuer will make estimation in a simulated market according to the transaction conditions of assets to be evaluated.

2. Open Market Assumption: The open market assumption is the kind of assumption on the conditions of the market where the assets are proposed to enter and the impact on the assets to be accepted under such market conditions. Open market refers to adequately developed and sound market conditions, and refers to a competitive market with voluntary buyers and sellers. In such market, buyers and sellers are equal and have sufficient opportunities and time to access the market information. Transactions of both parties are conducted on voluntary, rational, non-mandatory or unrestricted conditions.

3. The Assumption of Continuing Use: The assumption of continuing use refers to the kind of assumption on the conditions of the market where the assets are proposed to enter and the status of the assets under such market conditions. First, the evaluated assets are in use; secondly, the asset to be assumed in use will continue to be in use. Under the conditions of assumption for continuous use, changes in the purpose and the best utilization conditions of the assets are not taken into consideration. The scope of usage based on the valuation results is subject to limitations.

4. The Assumption of the Continuing Operations of the Enterprise: The assumption of continuing operations of the enterprise assumption is the valuation assumption made on the overall assets of the enterprise, as the valuation object. In other words, the enterprise, as an operating entity, will operate as a going concern in accordance with its operation target under the external environment where it operates. The persons operating the enterprise is accountable for and capable of assuming responsibilities; the valuation enterprise conducts lawful operations and is able to acquire appropriate profit to maintain capability of continuing operation.

[1] *Unless the context should otherwise specify, "company" and "enterprise" in this Appendix shall mean Wanbo Chemical Industrial.*

(II) Specific Assumptions

1. It is assumed that there are no material changes in the relevant existing laws, regulations and policies, and macroeconomic conditions of the PRC as well as in the local political, economic and social environment of such places where the parties to the transaction are operating; there are no material adverse impact caused by other unpredictable and force majeure factors.

2. It is assumed the enterprise will continue to operate as a going concern in light of the actual condition of the assets as at the Benchmark Date.

3. It is assumed that the persons operating the company is accountable, and the management is capable of performing their duties.

4. Unless otherwise stated, it is assumed the company has fully complied with all relevant laws and regulations.

5. It is assumed the accounting policies to be adopted by the company in the future are basically consistent with the accounting policies adopted when the report is prepared in respect of key aspects.

6. It is assumed that, based on the existing management practice and level of the company, the business scope and practice of the company will remain consistent with the current directions.

7. There are no substantial changes in relation to interest rate, exchange rate, tax base, tax rate and policy-based levies.

8. There are no major adverse effects on the enterprise caused by other force majeure factors beyond the control of human and unpredictable factors.

9. It is assumed there will be a balanced cash flow for the predicted years.