

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

RENEWAL OF CONTINUING CONNECTED TRANSACTION IN RELATION TO TRADEMARK LICENCE AGREEMENT

RENEWAL OF CONTINUING CONNECTED TRANSACTION

Reference is made to the announcements of Shandong Xinhua Pharmaceutical Company Limited (the “**Company**”, and together with its subsidiaries from time to time, the “**Group**”) dated 28 October 2009, 23 March 2012, 27 October 2014, 30 October 2017 and 22 October 2020 respectively in relation to licensing of the “Xinhua” trademark which constituted a continuing connected transaction of the Company.

Since the term of the supplemental trademark licence agreement entered into between the Company and Shandong Xinhua Pharmaceutical Branch of Hualu Holdings Co. Ltd (“**Shandong Xinhua Pharmaceutical Branch Company**”) in October 2020 (the “**2020 Supplemental Trademark Licence Agreement**”) will end on 31 December 2023, and the Company expects to continue to use the “Xinhua” trademark thereafter, the board (the “**Board**”) of directors (the “**Directors**”) of the Company announces that on 22 December 2023, the Company has renewed a trademark licence agreement (the “**2023 Trademark Licence Agreement**”) with Shandong Xinhua Pharmaceutical Branch Company to renew the licence concerning the use of the “Xinhua” trademark for the period from 1 January 2024 to 31 December 2024.

The purpose of this announcement is to set out the terms and details of the continuing connected transaction constituted by the 2023 Trademark Licence Agreement and the annual cap in respect of the continuing connected transaction for the financial year ending 31 December 2024.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Hualu Holdings Co. Ltd. (“**HHC**”) is a controlling shareholder of the Company (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”)) directly and indirectly interested in approximately 38.95% of the issued share capital of the Company. Shandong Xinhua Pharmaceutical Branch Company is a branch company of, and is not a separate legal entity from, HHC. Accordingly, the 2023 Trademark Licence Agreement and the transaction contemplated thereunder are expected to constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) (other than the profits ratio) for the transaction contemplated under the 2023 Trademark Licence Agreement exceed 0.1% but none of them exceed 5% on an annual basis, the continuing connected

transaction thereunder is subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but is exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcements of the Company dated 28 October 2009, 23 March 2012, 27 October 2014, 30 October 2017 and 22 October 2020 respectively in relation to licensing of the “Xinhua” trademark (the “**Trademark**”) which constituted a continuing connected transaction of the Company.

On 7 December 1996, the Company and Shandong Xinhua Pharmaceutical Group Company Limited (山東新華醫藥集團有限責任公司) (“**SXPGC**”) entered into a trademark licence agreement (the “**Trademark Licence Agreement**”) pursuant to which the Company was granted the exclusive right to use the Trademark for use concerning 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, 27 October 2014 and 30 October 2017, the Company and SXPGC entered into supplemental trademark licence agreements to extend the exclusive right to use the Trademark over the periods from 1 April 2012 to 31 December 2020.

On 4 April 2019, as a result of an internal restructuring, SXPGC (a direct wholly-owned subsidiary of HHC) transferred all its interests and liabilities in respect of the Company to HHC and HHC became the direct controlling shareholder of the Company. Reference is made to the announcements of the Company dated 18 July 2018, 18 September 2018, 26 November 2018, 14 January 2019 and 4 April 2019. Subsequently, the ownership of the Trademark was transferred from SXPGC to Shandong Xinhua Pharmaceutical Branch Company on 20 March 2020.

On 22 October 2020, the Company and Shandong Xinhua Pharmaceutical Branch Company entered into the 2020 Supplemental Trademark Licence Agreement which granted the Company exclusive right to use the Trademark over the period from 1 January 2021 to 31 December 2023.

On 22 December 2023, the Company entered into the 2023 Trademark Licence Agreement with Shandong Xinhua Pharmaceutical Branch Company to renew the term of the 2020 Supplemental Trademark Licence Agreement as the Company expects to continue to use the “Xinhua” trademark after 31 December 2023.

The purpose of this announcement is to set out the terms and details of the continuing connected transaction constituted by the 2023 Trademark Licence Agreement and the annual cap in respect of the continuing connected transaction for the financial year ending 31 December 2024.

The principal terms of the 2023 Trademark Licence Agreement are set out below:

THE 2023 TRADEMARK LICENCE AGREEMENT

Date

22 December 2023

Parties

- (i) the Company; and
- (ii) Shandong Xinhua Pharmaceutical Branch Company

Term

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

Subject matter

Pursuant to the 2023 Trademark Licence Agreement, the Company shall pay to Shandong Xinhua Pharmaceutical Branch Company an annual licence fee of RMB10,000,000 (by equal quarterly instalments) for the exclusive right to use the Trademark. Other terms of the Trademark Licence Agreement shall remain unchanged.

Pricing basis

The basis for the calculation of annual licence fees under the 2023 Trademark Licence Agreement is arrived at after arm's length negotiation between the parties with reference to (i) the licence fee charged by other licensors for similar transactions; and (ii) the pricing model for the provision of similar services under current market practice (whereby the licensing fee is typically calculated based on an agreed percentage of the total revenue derived from the principal business of the licensee for the current or preceding financial year).

The Board considers that the RMB10 million annual licensing fee under the 2023 Trademark Licence Agreement is in the interest of the Company and its shareholders (including minority shareholders) of the Company (the "**Shareholders**") as a whole taking into account the fact:

- (i) the goodwill of the "Xinhua" trademark and the fact that the products marketed and sold by the Group uses the Trademark; and
- (ii) the proposed annual licensing fee of RMB10 million represents no increment or adjustment from the annual licence fee payable under the 2020 Supplemental Trademark Licence Agreement, despite the fact that the operating revenue of the Company has continued to grow.

For reference, the annual licensing fee charged by the market as a percentage of total revenue derived from the principal business of the licensee in the current or preceding financial year ranges from 1% to 3%, whereas the annual license fee under the 2020 Supplemental Trademark Licence Agreement (in the amount of RMB10 million) represented only approximately 0.17%, 0.15% and 0.13% of the audited operating revenue of the Company in 2020, 2021 and 2022, respectively, notwithstanding the continued increase in operating revenue of the Company (from RMB6,055.9 million in 2020 to RMB7,502.99 million in 2022). The Company are not currently aware of factors which may affect the continued revenue growth of the Company given its continued development and commercialization of products.

Internal controls

To ensure that the continuing connected transaction contemplated under the 2023 Trademark Licence Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders, the Company has adopted the following internal control procedures:

- (i) the management of the Company will hold meetings from time to time to discuss and consider the terms and conditions and the pricing mechanism of the 2023 Trademark Licence Agreement to ensure that they are on normal commercial terms; and
- (ii) the independent non-executive directors and the auditors of the Company will conduct annual review on the continuing connected transaction contemplated under the 2023 Trademark Licence Agreement to confirm that the pricing policy and annual cap remain fair and reasonable, and provide confirmation of

the same annually in the annual report of the Company in accordance with the Listing Rules.

HISTORICAL AMOUNTS AND PROPOSED ANNUAL CAP

The following table summarises (i) the historical amounts of annual licensing fee under the 2020 Supplemental Trademark Licence Agreement; and (ii) the annual cap proposed by the Board in respect of the transaction under the 2023 Trademark Licence Agreement for the year ending 31 December 2024:

	Historical annual amount (RMB) From 1 January 2021 to 31 December 2023	Proposed annual cap (RMB) Year ending 31 December 2024
Annual license fee	10,000,000	10,000,000

Basis for the proposed annual cap

The proposed annual cap proposed by the Board in respect of the transaction under the 2023 Trademark Licence Agreement for the year ending 31 December 2024 is based on the actual annual amounts which will become payable under the 2023 Trademark Licence Agreement.

In determining the term of the 2023 Trademark Licence Agreement, the Company has taken into account its strategic direction and partnerships with Shandong Xinhua Pharmaceutical Branch Company on an annual basis.

The Company will satisfy the consideration of the transaction contemplated under the 2023 Trademark Licence Agreement from its internal resources.

Reasons for and benefits of the continuing connected transaction between the Company and Shandong Xinhua Pharmaceutical Branch Company

By virtue of the 2023 Trademark Licence Agreement, the Group will be able to continue to use the Trademark for marketing its products in and outside the PRC which is conducive to the continued operations of the Company under its established brand and image. The Directors (including the independent non-executive Directors) consider that:

- (i) the entering into of the 2023 Trademark Licence Agreement is in the interest of the Company and its Shareholders as a whole;
- (ii) the continuing connected transaction contemplated under the 2023 Trademark Licence Agreement and the relevant annual cap are on normal commercial terms and in the ordinary and usual course of business; and
- (iii) the terms of the continuing connected transaction contemplated under the 2023 Trademark Licence Agreement are fair and reasonable.

The Board and the independent non-executive Directors (excluding Mr. Zhang Chengyong, who is considered to have a material interest in the 2023 Trademark Licence Agreement due to his directorship or capacity as a member of the management of a subsidiary of HHC and was therefore required to abstain from voting on the relevant Board resolutions in relation to the 2023 Trademark Licence Agreement) have considered and reviewed the terms and provisions of the 2023 Trademark Licence Agreement, and are of the view that the 2023 Trademark Licence Agreement has been entered into on an arm's length basis and in the ordinary and usual

course of business, and that the transaction contemplated thereunder and the relevant annual cap are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

RELATIONSHIP BETWEEN THE CONNECTED PARTIES

HHC is a controlling shareholder of the Company and is directly and indirectly interested in approximately 38.95% of the issued share capital of the Company. Shandong Xinhua Pharmaceutical Branch Company is a branch company of HHC, and is therefore a connected person of the Company. Accordingly, the 2023 Trademark Licence Agreement and transactions contemplated thereunder are expected to constitute continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) (other than the profits ratio) under the 2023 Trademark Licence Agreement exceed 0.1% but none of them exceed 5% on an annual basis, the continuing connected transaction thereunder is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but is exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INFORMATION OF THE PARTIES AND CONNECTED PERSONS

The Company

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. The ultimate beneficial owner of the Company is the State-owned Assets Supervision and Administration Commission of the State Council of Shandong province.

HHC

HHC is a state-owned enterprise principally engaged in investment holding of various listed 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 Xinhua Pharmaceutical Branch Company

Shandong Xinhua Pharmaceutical Branch Company is a branch company of HHC, and is not a separate legal entity from, HHC. It is mainly engaged in the investment, management, operations and consulting of chemical, pharmaceutical and environmental protection industries through its own funds.

In case of any inconsistencies, the Chinese text of this announcement shall prevail over the English text.

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

22 December 2023, Zibo, PRC

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

Executive Directors:

Mr. He Tongqing (Chairman)

Mr. Xu Wenhui

Mr. Hou Ning

Independent Non-executive Directors:

Mr. Pan Guangcheng

Mr. Zhu Jianwei

Mr. Ling Peixue

Ms. Cheung Ching Ching, Daisy

Non-executive Directors:

Mr. Xu Lie

Mr. Zhang Chengyong

**for identification purpose only*