THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

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) PROPOSED NON-PUBLIC ISSUANCE OF NEW A SHARES; (2) CONNECTED TRANSACTION IN RELATION TO THE PROPOSED SUBSCRIPTION OF A SHARES BY HUALU INVESTMENT; (3) APPLICATION FOR WHITEWASH WAIVER; (4) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND NOTICE OF THE ANNUAL GENERAL MEETING AND OF MEETING OF THE SHAREHOLDERS OF H SHARES

Independent Financial Adviser to the Code Independent Board Committee, Listing Rules Independent Board Committee and Independent Shareholders

八方 金融有限公司
OCTAL Capital Limited

Octal Capital Limited

A letter from the Board is set out on pages 1 to 32 of this circular. A letter from the Code Independent Board Committee to the Independent Shareholders is set out on pages 33 to 34 of this circular. A letter from the Listing Rules Independent Board Committee to the Independent Shareholders is set out on pages 35 to 36 of this circular. A letter from Octal Capital Limited, the Independent Financial Adviser, containing its advice to the Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders is set out on pages 37 to 71 of this circular.

A notice convening the AGM and H Share Class Meeting to be held at the conference room of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC on 30 June 2021, Wednesday at 2:00 p.m. is also set out on pages AGM & HCM-1 to AGM & HCM-13 of this circular. (i) A notice convening the AGM to be held at the conference room of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC on 30 June 2021, Wednesday at 2:00 p.m.; (ii) a notice convening the H Share Class Meeting to be held at the conference room of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC on 30 June 2021, Wednesday at 4:00 p.m. (or immediately after the conclusion or adjournment of the A Share Class Meeting to be held on the same day at the same venue at 3:00 p.m. or immediately after the conclusion or adjournment of the AGM); and (iii) the proxy form and reply slip in relation to the AGM and H Share Class Meeting are enclosed and also 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 AGM and H Share Class Meeting, 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 AGM and H Share Class Meeting (or any adjournments thereof). Completion and return of the proxy form will not preclude you from attending and voting in person at the AGM and H Share Class Meeting or any adjournment thereof (as the case may be) should you so wish. Shareholders who intend to attend the AGM and H Share Class Meeting should also complete and return the reply slip in accordance with the instructions printed thereon.

31 May 2021

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In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"A Share(s)"	A Share(s) of RMB1.00 each in the capital of the Company which is/are listed and traded on the Shenzhen Stock Exchange
"A Share Class Meeting"	the class meeting of A Shareholders
"A Share Shareholder(s)"	holder(s) of A Shares
"A Shares Subscription Agreement"	the subscription agreement entered into between the Company and Hualu Investment dated 14 April 2021 in relation to the issue and subscription of 36,284,470 A Shares
"acting in concert"	has the meaning as defined in the Takeovers Code, and the term "concert parties" shall be construed accordingly
"AGM"	the annual general meeting for the year of 2020 of the Company to be held at 2:00 pm on 30 June 2021 at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC
"Announcement"	the announcement issued by the Company dated 14 April 2021 in relation to, among other things, the Proposed A Shares Issue and the Whitewash Waiver
"Articles of Association"	the articles of association of the Company, as amended from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Class Meetings"	A Share Class Meeting and H Share Class Meeting

"Code Independent Board Committee"	the independent committee of the Company comprising all non-executive Directors and independent non-executive Directors (excluding Mr. Cong Kechun due to his directorships or capacities as a member of the management of HHC), which is formed in accordance with the Takeovers Code to advise the Independent Shareholders on (i) the Proposed A Shares Issue; (ii) the Specific Mandate; and (iii) the Whitewash Waiver, and as to voting
"Company"	山東新華製藥股份有限公司(Shandong Xinhua Pharmaceutical Company Limited), a joint stock limited company incorporated in the PRC, whose H shares and A shares are listed on the Hong Kong Stock Exchange and the SZSE respectively
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"CSRC"	the China Securities Regulatory Commission
"Director(s)"	director(s) of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the SFC from time to time and any delegate of such Executive Director
"Group"	the Company and its subsidiaries
"H Share(s)"	overseas listed foreign share(s) in the share capital of the Company, with a nominal value of RMB1.00 each and is(are) listed on the Hong Kong Stock Exchange
"H Share Class Meeting"	the class meeting of H Shareholders to be held at 4:00 pm on 30 June 2021 at No. 1 Lutai Ave, Hi-tech District, Zibo City, Shandong Province, PRC
"H Share Shareholder(s)"	holder(s) of H Shares
"HHC"	Hualu Holdings Co. Ltd. (華魯控股集團有限公司), a company incorporated in the PRC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hualu Investment"	Hualu Investment Co., Ltd. (華魯投資發展有限公司), a wholly-owned subsidiary of HHC, being the subscriber which will subscribe for all the A Shares to be issued under the Proposed A Shares Issue in accordance with the A Shares Subscription Agreement
"Independent Financial Adviser"	Octal Capital Limited, a corporation licensed by the SFC to carry out types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO, acting as an independent financial adviser to advise the Code Independent Board Committee, Listing Rules Independent Board Committee and the Independent Shareholders on the Proposed A Shares Issue and the Whitewash Waiver and as to voting
"Independent Shareholder(s)"	the Shareholders other than (i) HHC, its associates and parties acting in concert with it (including Hualu Investment and Well Bring); and (ii) the Shareholders who are involved in or interested in the Proposed A Shares Issue and/or the Whitewash Waiver (including Mr. Du, an executive Director and general manager of the Company who was responsible for handling of and negotiations concerning the Proposed A Shares Issue on behalf of the Company)
"Issuance Date"	the date of issuance of A Shares to the Hualu Investment pursuant to the Proposed A Shares Issue
"Latest Practicable Date"	28 May 2021, being the latest practicable date of ascertaining certain information included in this circular before the printing of the circular
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Listing Rules Independent Board Committee"	the independent board committee of the Company comprising all independent non-executive Directors, which is formed in accordance with the Listing Rules to advise the Independent Shareholders on (i) the Proposed A Shares Issue; and (ii) the Specific Mandate, and as to voting

"Mr. Du"	Mr. Du Deping (杜德平), an executive Director
"Mr. He"	Mr. He Tongqing (賀同慶), an executive Director
"Mr. Xu"	Mr. Xu Lie (徐列), a non-executive Director
"Mr. Zhang"	Mr. Zhang Daiming (張代銘), an executive Director
"PRC"	the People's Republic of China which, for the purposes of this circular only (unless otherwise indicated), excludes Hong Kong, Macau and Taiwan
"Pricing Benchmark Date"	15 April 2021, being one day after the date on which the Board approved the Proposed A Shares Issue at the 2nd extraordinary meeting of the 10th session of the Board
"Proposed A Shares Issue"	the proposed non-public issuance of 36,284,470 A Shares to Hualu Investment
"Relevant Period"	the period commencing on 14 October 2020, being the date falling six months prior to the date of the Announcement, and ending on and including the Latest Practicable Date
"RMB"	Renminbi, the lawful currency of the PRC
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	The Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	A Share(s) and/or H Share(s)
"Share Option(s)"	the options granted under the Share Option Scheme
"Share Option Scheme"	the 2018 Share Option Incentive Scheme (A Shares) of the Company which was adopted on 28 December 2018 and amended on 22 December 2020

"Shareholder(s)"	holder(s) of Share(s)
"Specific Mandate"	the specific mandate to be granted by the Shareholders to the Board in relation to the Proposed A Shares Issue
"Supervisor(s)"	supervisor(s) of the Company
"SZSE" or "Shenzhen Stock Exchange"	the Shenzhen Stock Exchange
"Takeovers Code"	the Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
"Valuer" or "JLL"	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional valuer in Hong Kong engaged by the Company to provide valuation services on the properties in which the Group has interests in the PRC
"Well Bring"	Well Bring Limited (維斌有限公司), an indirect wholly-owned subsidiary of HHC
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligation on the part of HHC to make a general offer for all Shares and other equity share capital of the Company (other than those already owned or agreed to be acquired by HHC and its concert parties) as a result of the allotment and issue of the A Shares under the A Shares Subscription Agreement
"%"	per cent

If there is any inconsistency between such names or words and their English translations in this circular, the Chinese expressions shall prevail.

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

Non-executive Directors:
Mr. Xu Lie
Mr. Cong Kechun

Independent Non-executive Directors:
Mr. Pan Guangcheng
Mr. Zhu Jianwei
Mr. Lo Wah Wai

Registered address:
Chemical Industry Area
Zibo Hi-tech Industry Development Zone,
Zibo City, Shandong Province, PRC

Principal place of business:
No. 1 Lutai Ave.,
Hi-tech Industry Development Zone,
Zibo City, Shandong Province, PRC

31 May 2021

To Shareholders

Dear Sir or Madam,

**(1) PROPOSED NON-PUBLIC ISSUANCE OF NEW A SHARES;
(2) CONNECTED TRANSACTION IN RELATION TO THE PROPOSED SUBSCRIPTION OF A SHARES BY HUALU INVESTMENT;
(3) APPLICATION FOR WHITEWASH WAIVER; AND
(4) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

I. INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Proposed A Shares Issue under the Specific Mandate, the A Shares Subscription Agreement, the Whitewash Waiver and the proposed amendments to the Articles of Association.

On 14 April 2021, the Board considered and approved the Proposed A Shares Issue involving the issuance of 36,284,470 A Shares (representing approximately 5.78% of the issued share capital of the Company) to Hualu Investment for a cash issue price of RMB6.89 per A Share. The proceeds expected to be raised (before deducting relevant expenses related to the issuance) will amount to RMB250,000,000.

The Company and Hualu Investment entered into a A Shares Subscription Agreement on 14 April 2021, pursuant to which, subject to the terms and conditions set out thereunder (including satisfaction of certain conditions precedents, the Company shall issue and allot to Hualu Investment, and Hualu Investment has agreed to subscribe for, 36,284,470 A Shares.

The purpose of this circular is to provide you with, among other things, (i) details of the Proposed A Shares Issue pursuant to the A Shares Subscription Agreement, the Specific Mandate required for the Proposed A Shares Issue, the Whitewash Waiver and proposed amendment to the Articles of Association; (ii) a letter from the Code Independent Board Committee and Listing Rules Independent Board Committee setting out, inter alia, their recommendation as to the fairness and reasonableness of the Proposed A Shares Issue and how to vote in respect of Proposed A Shares Issue (including the Specific Mandate) and the Whitewash Waiver; and (iii) a letter of advice issued by the Independent Financial Adviser in connection with the foregoing, to enable you to make an informed decision on whether to vote for or against the proposed resolutions at the AGM and the H Share Class Meeting.

II. PROPOSED NON-PUBLIC ISSUANCE OF A SHARES

Structure of the Proposed A Shares Issue

Details of the Proposed A Shares Issue are set out below:

Class and par value of Shares to be issued	:	Shares to be issued under the Proposed A Shares Issue are new domestically listed ordinary share (A Shares) denominated in RMB, with a par value of RMB1.00 each.

Number of A Shares to be issued : Subject to the satisfaction of the conditions precedent (as described below), 36,284,470 new A Shares will be issued under the Proposed A Shares Issue, which represent:

(i) approximately 8.39% of the existing number of A Shares in issue as at the Latest Practicable Date, and approximately 5.78% of the existing total number of Shares in issue as at the Latest Practicable Date; and

(ii) approximately 7.74% of the number of A Shares in issue and approximately 5.47% of the total number of Shares in issue, in each case as enlarged by the number of A Shares to be issued upon the completion of the Proposed A Shares Issue.

The number of A Shares to be issued under the Proposed A Shares Issue (being 36,284,470 A Shares) is arrived at by dividing the total amount of funds to be raised by the Company thereunder (being RMB250,000,000) by the issue price per A Share to be determined based on the principles as set out in the paragraph headed "Issue price, Pricing Benchmark Date and pricing principles" below. Provided that such number of A Shares to be issued shall not be more than 30% of the total existing number of Shares in issue, the final number of A Shares to be issued under the Proposed A Shares Issue shall be subject to (i) determination by the sponsor and lead underwriter in accordance with the relevant requirements of the CSRC; (ii) obtaining applicable approval from the CSRC; and (iii) obtaining the Specific Mandate required for the issuance of the relevant A Shares in the AGM and the Class Meetings.

The number of A Shares to be issued under the Proposed A Shares issue will be adjusted if, during the period from the Pricing Benchmark Date to the Issuance Date, any event which may alter the total number of Shares of the Company (such as, without limitation, a dividend distribution, an issuance of bonus shares or a conversion of capital reserve into share capital) occurs which may lead to an adjustment to the issue price (as set out in the paragraph headed "Issue price, Pricing Benchmark Date and pricing principles" below).

Subscriber and method of subscription	:	The subscriber of the Proposed A Shares Issue is Hualu Investment, which has agreed to subscribe for all the A Shares to be issued under the Proposed A Shares Issue by way of cash in RMB.
Method and time of issue	:	The Proposed A Shares Issue will be carried out by way of non-public issuance of A Shares to Hualu Investment. Subject to the satisfaction of all the conditions precedent, the Company will issue A Shares to Hualu Investment (within the validity period of the resolutions described below) after obtaining the approval from the CSRC.
Issue price, Pricing Benchmark Date and pricing principles:	:	The issue price of the A Shares, being the subscription price payable by Hualu Investment under the Proposed A Shares Issue, is RMB6.89 per A Share, which is: (i) not less than 80% of the average trading price of the A Shares over the 20 trading days preceding the Pricing Benchmark Date (which is calculated by dividing the total trading turnover of A Shares traded in the 20 trading days preceding the Pricing Benchmark Date by the total volume of A Shares traded in those 20 trading days); and (ii) not less than the unaudited net asset value per share attributable to the holders of ordinary shares of the parent company at the end of the Company's most recent financial year prior to the Pricing Benchmark Date, whichever is higher, in each case rounded up to two decimal places. The issue price of RMB6.89 per A Share represents: (i) a discount of approximately 20.53% to the closing price of RMB8.67 per A Share on the last trading date (i.e. 14 April 2021) before the publication of the Announcement (i.e. the last day immediately preceding the Pricing Benchmark Date); (ii) a discount of approximately 23.02% to the closing price of RMB8.95 per A Share on the Latest Practicable Date;

(iii) a premium of approximately 28.79% to the latest unaudited net asset value attributable to Shareholders (excluding minority interests) of RMB5.35 per Share (based on 627,367,447 Shares in issue, including the A Shares and the H Shares) as at 31 March 2021;

(iv) a premium of approximately 7.99% to the adjusted unaudited net asset value attributable to Shareholders (excluding minority interests) of RMB6.38 per Share (based on 627,367,447 Shares in issue, including the A Shares and the H Shares) as at 31 March 2021, as more particularly described in the paragraph headed "Financial Information of the Group – 4. Property Interests and Adjusted Net Asset Value per Share" as set out in **Appendix VII** to this circular; and

(v) a discount of approximately 19.1% of the average trading price of the A Shares over the 20 trading days preceding the Pricing Benchmark Date.

If, during the period from the Pricing Benchmark Date to the Issuance Date, any ex-right or ex-dividend event (such as, without limitation, a dividend distribution, an issue of bonus shares or a conversion of capital reserve into share capital) occurs, the issue price shall be adjusted based on the following formula.

Cash distribution:

$$P1 = P0 - D$$

Issue of bonus shares or conversion of capital reserve into share capital:

$$P1 = P0/(1 + N)$$

Cash distribution and issue of bonus shares or conversion of capital reserve into share capital take place simultaneously:

$$P1 = (P0 - D)/(1 + N)$$

where:

(i) P0 denotes the issue price before adjustment;

(ii) D denotes the amount of cash to be distributed per Share;

(iii) N denotes the number of Shares to be distributed as bonus or converted from the capital reserve per Share; and

(iv) P1 denotes the new issue price after adjustment.

The above adjustment shall be made in accordance with requirements prescribed under Rule 12 of the "Implementation Rules for Non-public Issuance of Shares by Listed Companies"《上市公司非公開發行股票實施細則》promulgated by the CSRC.

Conditions precedent for the A Shares Subscription Agreement to take effect : Completion of the A Shares Subscription Agreement is conditional upon satisfaction of the following conditions, and will take effect when all those conditions have been satisfied:

(i) in accordance with the relevant laws and the Articles of Association, the approval of the plan of the Proposed A Shares Issue and related matters has been obtained at the Board meeting, the AGM and the Class Meetings;

(ii) the obtaining of approval of the Whitewash Waiver from Independent Shareholders at the AGM in compliance with applicable requirements of the Takeovers Code, and HHC and persons acting in concert with it being exempt from the obligation to make a general offer under applicable laws and regulations of the PRC;

(iii) the approval from the relevant state-owned assets supervision and administration authorities of the PRC for the Proposed A Shares Issue having been obtained;

(iv) the approval from the CSRC for the Proposed A Shares Issue having been obtained; and

(v) the grant of the Whitewash Waiver by the Executive to HHC and the parties acting in concert with it in accordance with the Takeovers Code.

None of the above conditions precedent are waivable.

In relation to condition (ii) above, under section 63 of the Measures for the Administration of the Takeover of Listed Companies (《上市公司收購管理辦法》) and the applicable PRC rules, a person would be exempt from making a general offer arising from his subscription a new issuance of shares if the approval of independent shareholders of a listed company has been obtained. In this regard, it is intended that the approval of Independent Shareholders of relevant resolutions be passed at the AGM such that HHC and persons acting in concert with it would be exempt from making a general offer for securities of the Company as a result of the Proposed A Shares Issue.

As at the Latest Practicable Date, the approval from the Board for the Proposed A Shares Issue has been obtained. However, the conditions precedent set out under the A Shares Subscription Agreement described above have not been satisfied.

Under the Listing Rules, the resolutions for the approval of the Proposed A Shares Issue, the A Shares Subscription Agreement and the Specific Mandate are required to be approved by a simple majority of the votes that are cast either in person or by proxy by the Independent Shareholders at the AGM and the Class Meetings.

The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the Whitewash Waiver being approved by at least 75% of the independent votes that are cast either in person or by proxy at the AGM, and the Proposed A Shares Issue and the A Shares Subscription Agreement being approved by more than 50% of the independent votes that are cast either in person or by proxy at the AGM, as required under the Takeovers Code. Further, under the Articles of Association, the Proposed A Shares Issue and the A Shares Subscription Agreement will have to be approved by at least two-thirds of the votes cast on a poll by the Independent Shareholders at each of the AGM and the Class Meetings.

Lock-up period : Hualu Investment shall not, and undertakes not to, transfer the A Shares subscribed for under the Proposed A Shares Issue within 36 months from the date of completion of the Proposed A Shares Issue.

The above lock-up arrangement shall also apply to any Shares derived from the A Shares subscribed by Hualu Investment under the Proposed A Shares Issue in the circumstances such as those derived from, without limitation, a distribution of stock dividend or a conversion of capital reserves to share capital.

Total amount of funds to be raised : The total funds expected to be raised from the Proposed A Shares Issue (before deducting relevant expenses related to the issuance) will amount to RMB250,000,000.

Proposed use of proceeds: The net proceeds from the Proposed A Shares Issue (after deducting relevant expenses related to the issuance) are intended to be used to supplement working capital, and repay interest-bearing liabilities of the Group.

In particular, it is intended that (subject to necessary adjustments based on actual operational needs under prevailing circumstances):

(i) approximately RMB50,000,000 would be used for the repayment of the one-year term loan granted to the Group by Zhangdian District Branch of Industrial and Commercial Bank of China, the repayment of which is due on 9 November 2021;

(ii) approximately RMB90,000,000 would be used for the repayment of the three-year term loan granted to the Group by Zibo Branch of China CITIC Bank, the repayment of which is due on 12 April 2022; and

(iii) the remaining net proceeds would be used for supplementing the working capital of the Group, of which (a) approximately RMB80,000,000 is expected to be used for purchasing raw materials for the production of chemical bulk drugs and preparations (in anticipation of expected demand for such products given that there has been an uptrend of demand in pharmaceuticals active pharmaceutical ingredients (such as antipyretic and analgesic and preparations) produced by the Group in recent years); and (b) the remainder would be used for settling increased production costs (including utility expenses) associated with the expected increase in our production capacity.

Termination of the A Shares Subscription Agreement : The A Shares Subscription Agreement shall be terminated in the event of occurrence of one or more of the following circumstances:

(i) due to material changes in circumstances (determined objectively), the Company enter into a written agreement with Hualu Investment to terminate the A Shares Subscription Agreement prior to completion of the A Shares Subscription Agreement;

(ii) either the Company or Hualu Investment is unable to continue to perform the A Shares Subscription Agreement due to closure of its business or revocation of its business license by competent administrative authorities due to violation of applicable laws and regulations;

(iii) either the Company or Hualu Investment is declared bankrupt by PRC courts;

(iv) due to objections being raised by competent government authorities, securities registration or trading authorities or judicial authorities of the PRC concerning the contents and performance of the A Shares Subscription Agreement, resulting in its termination, cancellation or being deemed invalid, or resulting in the principles or provisions contained therein incapable of being performed leading to the ability to achieve the intended commercial objectives to be seriously impaired;

(v) the key provisions of the A Shares Subscription Agreement being inconsistent with requirements of applicable laws, administrative regulations and/or normative documents of the PRC due to amendment of such requirements, or are otherwise incapable of being performed due to national policies or orders in force; and

(vi) due to the occurrence of any force majeure event, both the Company and Hualu Investment mutually agree and determine to terminate the A Shares Subscription Agreement following discussions.

Place of listing	:	The Company will apply to the SZSE for the listing of, and permission to deal in, the A Shares to be issued under the Proposed A Shares Issue. Upon completion of the A Shares Subscription Agreement, these A Shares will be listed on the SZSE.
Validity period of the resolutions:	:	The resolutions regarding the Proposed A Shares Issue shall be valid for 12 months from the date on which the relevant resolutions are considered and approved at the AGM and the Class Meetings.
Specific Mandate of the issuance of A Shares:	:	The Company will issue the A Shares under the Specific Mandate which is proposed to be granted to the Board at the AGM and the Class Meetings.
Rights of the A Shares to be issued:	:	The A Shares to be issued pursuant to the Proposed A Shares Issue, when fully paid and issued, will rank pari passu in all respects amongst themselves and with the A Shares in issue at the time of the issue of such A Shares.
Arrangement concerning retained but undistributed profits prior to the Proposed A Shares Issue:	:	Both Hualu Investment and existing Shareholders shall be entitled to retained but undistributed profits of the Company prior to the Proposed A Shares Issue (in proportion to the number of Shares held) upon completion of the Proposed A Shares Issue.

1. Proposal in relation to the "Proposal for Non-public Issuance of A Shares"

The "Proposal for Non-public Issuance of A Shares" was prepared in Chinese language. The full text of the English translation of the proposal is set out in **Appendix I** to this circular for reference. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

Each of the following items in relation to the Proposed A Shares Issue concerning matters described above will be considered, approved and implemented, conditional upon the obtaining of all applicable approvals and authorisations from the relevant authorities:

(i) class and par value of A Shares to be issued;

(ii) method and timing of the issuance of A Shares;

(iii) subscriber and method of subscription by the subscriber;

(iv) pricing principle and issue price of the A Shares to be issued;

(v) number of A Shares to be issued;

(vi) the lock-up period applicable to the A Shares that will be issued;

(vii) the amount of total funds to be raised from the issuance of A Shares and the proposed use of proceeds;

(viii) listing place of A shares to be issued;

(ix) validity period of the resolutions regarding the Proposed A Shares Issue; and

(x) arrangement concerning retained but undistributed profits of the Company prior to the Proposed A Shares Issue.

The proposal in relation to the "Proposal for Non-public Issuance of A Shares" will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the AGM and the Class Meetings.

2. Proposal in relation to the A Shares Subscription Agreement entered into between the Company and Hualu Investment

The proposal in relation to the A Shares Subscription Agreement entered into between the Company and Hualu Investment on 14 April 2021 (pursuant to which the Company has conditionally agreed to issue and Hualu Investment has agreed to subscribe for 36,284,470 A Shares under the Proposed A Shares Issue at a total subscription price of RMB250,000,000) and the transactions contemplated therein will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the AGM and the Class Meetings.

3. Proposal in relation to compliance by the Company with the conditions of the Proposed A Shares Issue

The Board believes, after having made reasonable enquiries including carrying out necessary verification of circumstances and relevant matters of the Company, that the Company would comply with conditions stipulated by applicable laws, regulations and regulatory documents (including, without limitation, the Company Law of the PRC (《中華人民共和國公司法》), the Securities Law of the PRC (《中華人民共和國證券法》), the "Measures for Administration of the Issuance of Securities by Listed Companies" (《上市公司證券發行管理辦法》) and the Implementation Rules for the Non-public Issuance of Shares by Listed Companies(《上市公司非公開發行股票實施細則》)) in the PRC which are relevant to the Proposed A Shares Issue.

The proposal in relation to the compliance by the Company with conditions of the Proposed A Shares Issue will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the AGM.

4. Proposal in relation to the dilution of current returns to Shareholders as a result of the Proposed A Shares Issue and the adoption of remedial measures

According to the requirements of the Opinions of the General Office of the State Council on Further Strengthening the Work of Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》) and Guiding Opinions on Matters concerning the Dilution of Current Return in Initial Public Offering, Refinancing and Material Asset Restructuring (CSRC No. 31 of 2015) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》), in order to protect the rights to information and the interests of minority investors, the Company has carefully analysed on the impact of dilution of current returns to Shareholders as a result of the Proposed A Shares Issue and has formulated specific remedial measures to mitigate the impact. The controlling Shareholder, Directors and senior management of the Company are committed to ensure that the Company will earnestly implement the relevant remedial measures. Please refer to section VII of Appendix I to this circular for details of the main remedial measures that have been adopted by the Company to mitigate the dilutive effects on current returns attributable to Shareholders resulting from the Proposed A Shares Issue as well as the undertakings that will be provided by the controlling Shareholder, Directors and senior management of the Company in connection thereof.

The proposal in relation to the dilution of current returns as a result of the Proposed A Shares Issue and adoption of remedial measures and undertakings thereof by the controlling Shareholder, the Directors and senior management will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the AGM.

5. Proposal in relation to the "Feasibility analysis report on the use of proceeds from the Proposed A Shares Issue"

A "Feasibility analysis report on the use of proceeds from the Proposed A Shares Issue" has been prepared in Chinese language. The full text of the English translation of such report is set out in **Appendix II** to this circular for reference. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the "Feasibility analysis report on the use of proceeds from the Proposed A Shares Issue" will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the AGM and the Class Meetings.

6. Proposal in relation to the "Report on use of proceeds from previous fund raising activities of the Company"

A "Report on use of proceeds from previous fund raising activities of the Company" has been prepared in Chinese language. The full text of the English translation of the report is set out in **Appendix III** to this circular for reference. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the "Report on use of proceeds from previous fund raising activities of the Company" will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the AGM.

7. Proposal in relation to the "Shareholders' Return Plan for the Next Three Years of the Company"

In order to ensure stable and transparent decisions-making and supervisory mechanisms concerning dividend distributions and highlight the importance of delivering stable and sustainable returns to Shareholders, the Company has formulated the "Shareholders' Return Plan for the Next Three Years of the Company" pursuant to applicable requirements in the Company Law of the People's Republic of China《中華人民共和國公司法》, the Notice regarding Further Implementation of Issues Related to Cash Dividends of Listed Companies《關於進一步落實上市公司現金分紅有關事項的通知》and the No. 3 Guideline for the Supervision of Listed Companies–Cash Dividend Distribution of Listed Companies(《上市公司監管指引第3號 – 上市公司現金分紅》) issued by the CSRC, other applicable laws, administrative regulations, regulatory documents and the Articles of Association.

The "Shareholders' Return Plan for the Next Three Years of the Company" was prepared in Chinese language. The full text of the English translation of the plan is set out in **Appendix IV** to this circular for reference. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to "Shareholders' Return Plan for the Next Three Years of the Company" will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the AGM.

8. Proposal in relation to the Specific Mandate to the Board to deal with matters related to the Proposed A Shares Issue

To ensure the smooth implementation of the Proposed A Shares Issue, it is proposed that the Board and its authorised persons be granted full discretion, by way of a Specific Mandate, to conduct relevant matters concerning the Proposed A Shares Issue (including, without limitation, to make determinations concerning the issue price and number of A Shares to be issued, to execute relevant agreements or documents and procure necessary filings and registrations with authorities to be conducted etc.) in any event in compliance with all applicable laws and requirements of the Articles.

The proposal in relation to the Specific Mandate to the Board to deal with matters related to the Proposed A Shares Issue will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the AGM and the Class Meetings.

9. Proposal in relation to the application of waiver in respect of the general offer obligation over the A Shares by HHC

Under section 63 of the Measures for the Administration of the Takeover of Listed Companies (《上市公司收購管理辦法》) and the applicable PRC rules, a person would be exempt from making a general offer arising from his subscription a new issuance of shares if the approval of independent shareholders of a listed company has been obtained. In this regard, it is intended that the approval of Independent Shareholders of relevant resolutions be passed at the AGM such that HHC and persons acting in concert with it would be exempt from making a general offer for securities of the Company as a result of the Proposed A Shares Issue.

The proposal for obtaining the approval of Independent Shareholders for application of the exemption from general offer obligation under the relevant laws and regulations in the PRC which will be triggered by completion of the subscription of A Shares by Hualu Investment under the Proposed A Shares Issue will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the AGM.

III. CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF A SHARES BY HUALU INVESTMENT

As part of the Proposed A Shares Issue, the Company and Hualu Investment entered into the A Shares Subscription Agreement on 14 April 2021, pursuant to which the Company will, subject to the satisfaction of the conditions precedent as disclosed in the section headed "Structure of the Proposed A Shares Issue", issue 36,284,470 A Shares (representing approximately 5.78% of the total existing number of Shares in issue) to Hualu Investment for a cash issue price of RMB6.89 per A Share.

HHC is the controlling Shareholder holding approximately 36.63% of the total number of Shares of the Company in issue as at the Latest Practicable Date, and therefore HHC is a connected person of the Company under the Listing Rules. The Proposed A Shares Issue constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules and the relevant PRC laws and regulations.

The resolution in relation to the subscription of A Shares under the Proposed A Shares Issue which constitutes a connected transaction of the Company will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the AGM, the A Share Class Meeting and the H Share Class Meeting.

EFFECT OF THE PROPOSED A SHARES ISSUE ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Proposed A Shares Issue (assuming no other change in the number of issued shares in the Company):

Shareholders	As at the Latest Practicable Date		Immediately after the completion of the proposed A Shares Issue		Immediately after the completion of the proposed A Shares Issue and exercise of all outstanding Share Options	
	Number of Shares held	Approximate percentage of all issued Shares	Number of Shares held	Approximate percentage of all issued Shares	Number of Shares held	Approximate percentage of all issued Shares
A Shares:						
HHC	204,864,092	32.65%	204,864,092	30.87%	204,864,092	30.38%
Hualu Investment	4,143,168	0.66%	40,427,638	6.09%	40,427,638	6.00%
Public A Share Shareholders and Shareholders under the Share Option Scheme of the Company (excluding Directors)	222,476,655	35.46%	222,476,655	33.52%	232,502,055	34.48%
Directors						
Mr. Zhang	292,358	0.047%	292,358	0.044%	490,358	0.073%
Mr. Du	243,368	0.039%	243,368	0.037%	421,568	0.063%
Mr. Xu	156,414	0.025%	156,414	0.024%	301,614	0.045%
Mr. He	191,392	0.031%	191,392	0.029%	336,592	0.050%
Subtotal	**432,367,447**	**68.92%**	**468,651,917**	**70.62%**	**479,343,917**	**71.08%**
H Shares:						
Well Bring	20,827,800	3.32%	20,827,800	3.14%	20,827,800	3.09%
Public H Share Shareholders	174,172,200	27.76%	174,172,200	26.24%	174,172,200	25.83%
Directors	–	–	–	–	–	–
Subtotal	**195,000,000**	**31.08%**	**195,000,000**	**29.38%**	**195,000,000**	**28.92%**

Shareholders	As at the Latest Practicable Date		Immediately after the completion of the proposed A Shares Issue		Immediately after the completion of the proposed A Shares Issue and exercise of all outstanding Share Options	
	Number of Shares held	Approximate percentage of all issued Shares	Number of Shares held	Approximate percentage of all issued Shares	Number of Shares held	Approximate percentage of all issued Shares
Total Issued Shares:						
HHC and parties acting in concert with it (including Hualu Investment and Well Bring)	229,835,060	36.63%	266,119,530	40.10%	266,119,530	39.46%
Public Share Shareholders and Shareholders under the Share Option Scheme of the Company (excluding Directors)	396,648,855	63.22%	396,648,855	59.77%	406,674,255	60.31%
Directors	883,532	0.14%	883,532	0.13%	1,550,132	0.23%
Total number of Shares in issue	**627,367,447**	**100%**	**663,651,917**	**100%**	**674,343,917**	**100%**

Note: The percentages shown are rounded to the nearest 2 decimal places. Number may not add up to 100% due to rounding.

As shown in the above table, the total shareholding interest held by HHC (itself and through its directly or indirectly wholly-owned subsidiaries) in the Company immediately before and after the Proposed A Shares Issue are approximately 36.63% and 40.10% respectively.

The Proposed A Shares Issue will potentially result in a theoretical dilution effect (with the meaning ascribed to it in Rule 7.27B of the Listing Rules) of approximately 0.27%, being the discount of the theoretical diluted price (as defined in note 1(a) under Rule 7.27B of the Listing Rules) ("**TDP**") of approximately RMB7.29 to the benchmarked price (as defined in note 1(b) under Rule 7.27B of the Listing Rules) ("**BP**") of RMB7.31.

The theoretical dilution effect of approximately 0.27% above is calculated as follows:

$$\text{Theoretical dilution effect} = \quad 1 - \frac{\text{TDP}}{\text{BP}} \times 100\%$$

where:

(i) BP (benchmarked price) is the higher of (i) the closing price of Shares on the date of the A Shares Subscription Agreement; and (ii) the average closing price in the five trading days immediately prior to the earlier of: (a) the date of announcement of the issue; (b) the date of the agreement involving the issue; and (c) the date on which the issue price is fixed (the "**ACP**")

In respect of the Proposed A Shares Issue:

- the closing price of the Shares on the date of the A Shares Subscription Agreement (i.e. 14 April 2021) were:

A Shares	H Shares
RMB8.67	HKD4.80

- the ACP (average closing price) in the five trading days immediately prior to the date of the A Shares Subscription Agreement (i.e. 14 April 2021) were:

Date	A Shares	H Shares
7 April 2021	RMB8.65	HKD4.52
8 April 2021	RMB8.85	HKD4.88
9 April 2021	RMB8.89	HKD4.91
12 April 2021	RMB8.86	HKD4.93
13 April 2021	RMB8.63	HKD4.78
Average Closing Price (ACP)	RMB8.78	HKD4.80

In connection with the Proposed A Shares Issue, the benchmarked price is therefore RMB8.78 for A Shares and RMB4.80 for H Shares.

The BP (benchmarked price) of all Shares, taking into account the overall share capital of the Company, is calculated as follows:

$$\text{BP} = \frac{\text{ACP (A Shares) x number of A Shares + ACP (H Shares) x number of H Shares x FX rate*}}{\text{Total number of issued Shares immediately before the Proposed A Shares issue}}$$

$$= \frac{\text{RMB8.78 x 432,367,447 A Shares + HK\$4.80 x 195,000,000 H Shares x 0.8408.}}{\text{627,367,447 Shares}}$$

$$= \text{approximately RMB7.31}$$

* FX rate: HKD is converted to RMB using an illustrative exchange rate of HKD1 = RMB0.8408 as published by the PRC State Administration of Foreign Exchange as at 14 April 2021.

(ii) TDP (theoretical diluted price) means the sum of (i) the issuer's total market capitalisation (by reference to the BP (benchmarked price) and the number of issued shares immediately before the issue) and (ii) the total funds raised and to be raised from the issue, divided by the total number of shares as enlarged by the issue.

In respect of the Proposed A Shares Issue:

$$\text{TDP} = \frac{\text{BP x Outstanding share capital before Proposed A Shares Issue + Total funds to be raised}}{\text{Enlarged share capital after Proposed A Shares issue}}$$

$$= \frac{\text{RMB7.31 x 627,367,447 Shares + RMB250,000,000}}{\text{663,651,917 Shares}}$$

$$= \text{approximately RMB7.29}$$

On the basis of the above, the theoretical dilution effect is calculated as follows:

$$\textbf{Theoretical dilution effect} = 1 - \frac{\text{TDP}}{\text{BP}} \text{ x } 100\%$$

$$= 1 - \frac{\text{RMB7.29}}{\text{RMB7.31}} \text{ x } 100\%$$

$$= \text{approximately } 0.27\%$$

SECURITIES OF THE COMPANY

As at the Latest Practicable Date, the Company has 627,367,447 Shares in issue, comprising 432,367,447 A Shares and 195,000,000 H Shares, and 10,692,000 outstanding Share Options. Save as aforesaid, the Company has no other outstanding shares, options, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) that carry a right to subscribe for or which are convertible into Shares.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save for the 5,508,000 new A Shares issued upon the exercise of the Share Options, the Company has not carried out any fund raising exercises through issue of any equity securities during the 12 months immediately preceding the Latest Practicable Date.

REASONS FOR AND BENEFITS OF THE PROPOSED A SHARES ISSUE

1. Enhancing capital strength to ensure capital needs for the Company's development

In 2018, 2019 and 2020, the operating revenue of the Company was approximately RMB5.245 billion, RMB5.606 billion and RMB6.006 billion respectively, representing a compound annual growth rate of 9.76%. With the continuous expansion of the Company's business size, the Company's demand for working capital will continue to grow.

The Company is involved in the pharmaceutical manufacturing industry, and its business involves the development, production and sale of pharmaceutical raw materials, preparations, medical intermediate and other products. It has higher requirements for production, circulation and management. The Company, on a continuous basis, must pay for the purchase, maintenance and repair of fixed assets as well as has projects under construction, and therefore incurs relatively high expenditure annually. The industry that the Company operates in is technology-intensive. In order to maintain its competitive edge and sustainable development capabilities, the Company needs to continue to increase investment in research and development and technological improvements. In addition, in order to further expand and optimise the Company's position as a contract manufacturing organisation and contract research organisation and in other business areas, the Company will also increase its research and development expenditure in the future. With the steady development of the Company's business, there will be increasing working capital requirements. The raising of funds to supplement the Company's working capital through the Proposed A Shares Issue will be conducive to facilitating the Company's resources integration, accelerating the Company's development strategy and strengthening the foundation of sustainable development for the purpose of laying a solid foundation for the healthy, stable and sustainable development of the Company in order to maximise Shareholders' interests.

2. Optimising the asset structure and improving the capacity to resist risks

As of 31 March 2021, the Company's combined asset-liability ratio was 51.43%, considerably higher than the average of listed companies in the same industry. The capacity to expand the size of the Company's business is limited to a certain extent by the Company's overall capital and debt position. In addition, changes in the external environment such as the COVID-19 pandemic and international trade friction have a great impact on various industries. Specifically, in the pharmaceutical industry, there are higher requirements for a healthy capital structure, business risk resistance capacity and operational flexibility. After the funds raised in the Proposed A Shares Issue are received, the Company's capital will be increased; its asset-liability ratio will be reduced; its working capital will be supplemented; and its capital structure will be optimised. As a result, the Company's financial position will be further improved, financial risks will be reduced, and the capacity to tolerate risk will be enhanced.

Against the background of the impact of the COVID-19 pandemic on the global macro-economy and on the economy of the PRC, the Proposed A Shares Issue will strengthen the Company's capital base to support the growth and development of the Group's business in the future. The subscriber of the new A Shares to be issued under the Proposed A Shares Issue is Hualu Investment, which is a wholly-owned subsidiary of HHC, the controlling Shareholder of the Company and such subscription reflects the support and confidence of the controlling Shareholder of the Company, which is crucial for the long-term development of the Group. As compared to placing new Shares to independent third parties, the non-public issuance of A Shares under the Proposed A Shares Issue provides an efficient means of raising capital for the Company's present and future needs, as well as reinforcing the Group's ties with its controlling Shareholder. Further, the issue price for the new A Shares to be issued was set in compliance with the "Administrative Measures for the Issuance of Securities by Listed Companies"(《上市公司證券發行管理辦法》) and the "Implementation Rules for Non-public Issuance of Shares by Listed Companies"《上市公司非公開發行股票實施細則》promulgated by the CSRC, which require that the minimum issue price of A shares under non-public issuance of A shares must be not less than 80% of the average trading price of the relevant company's shares during the 20 trading days preceding the relevant pricing benchmark date. The Company has additionally considered the unaudited net asset value per share attributable to the holders of ordinary shares of the parent company at the end of the Company's most recent financial year prior to the Pricing Benchmark Date in determining the Issue Price. Therefore, the Directors (excluding members of the Listing Rules Independent Board Committee and Code Independent Board Committee) believe that the terms of the A Shares Subscription Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In the light of the Proposed A Shares Issue, the Articles of Association of the Company will need to be amended in accordance with the relevant laws and regulations.

The Board proposes to seek from the Shareholders at the AGM the relevant authorisation to the Board to make corresponding adjustments and amendments to the Articles of Association (including but not limited to adjustments and amendments to the wording, sections, terms, conditions of effect and others) based on the results and the actual conditions of the Proposed A Shares Issue, and to make corresponding adjustments and amendments to the content of the Articles of Association relating to registered capital and share capital structure upon completion of the Proposed A Shares Issue.

The proposal regarding the relevant authorisation to the Articles of Association will be submitted to the AGM for consideration and approval by way of special resolution.

INTENTION OF HHC AND PARTIES ACTING IN CONCERT WITH IT REGARDING THE COMPANY

HHC and parties acting in concert with it intend to continue with the existing business of the Company upon the completion of the Proposed A Shares Issue. HHC and parties acting in concert with it have no intention to introduce any major changes to the existing business of the Company (including any redeployment of the fixed assets of the Company). It is also the intention of HHC and parties acting in concert with it that the employment of the existing employees of the Group should be continued following completion of the Proposed A Shares Issue except for changes which may occur in the ordinary course of business.

IMPLICATIONS UNDER THE LISTING RULES

Hualu Investment is a wholly-owned subsidiary of HHC, which is the controlling Shareholder holding approximately 36.63% of the total number of Shares of the Company in issue as at the Latest Practicable Date. Therefore, Hualu Investment is a connected person of the Company under the Listing Rules. The Proposed A Shares Issue constitutes a connected transaction of the Company and is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Cong Kechun, being a Director, due to his directorships or capacities as a member of the management of HHC, is therefore considered to be materially interested in the relevant board resolutions to approve the Proposed A Shares Issue. Accordingly, Mr. Cong Kechun has abstained from voting on the Board resolutions to approve the Proposed A Shares Issue. Save and except for the aforesaid, none of the Directors has any material interest in any of the Proposed A Shares Issue and hence no other Director has abstained on voting such Board resolutions.

The Specific Mandate is sought from the shareholders of the Company as required under Rule 13.36 of the Listing Rules, as modified by Chapter 19A of the Listing Rules.

IMPLICATIONS UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, HHC holds 209,007,260 A Shares (itself and through Hualu Investment) and 20,827,800 H Shares (itself and through Well Bring), representing approximately 36.63% of the total issued share capital of the Company. Upon completion of the Proposed A Shares Issue, HHC's aggregate shareholding in the Company is expected to increase from approximately 36.63% to approximately 40.10%. In the absence of an applicable waiver, the Proposed A Shares Issue will give rise to an obligation on the part of HHC to make a mandatory offer for all the Shares in issue other than those already owned or agreed to be acquired by it under Rule 26.1 of the Takeovers Code.

HHC has applied for the Whitewash Waiver from compliance with Rule 26.1 of the Takeovers Code. The Executive has indicated that it is minded to grant the Whitewash Waiver subject to, among other things, the Whitewash Waiver being approved by at least 75% of the independent votes that are cast either in person or by proxy at the AGM, and the Proposed A Shares Issue and the A Shares Subscription Agreement being approved by more than 50% of the independent votes that are cast either in person or by proxy at the AGM as required under the Takeovers Code. Further, under the Articles of Association, the Proposed A Shares Issue and the A Shares Subscription Agreement will have to be approved by at least two-thirds of the votes cast on a poll by the Independent Shareholders at each of the AGM, the A Share Class Meeting and the H Share Class Meeting. The Proposed A Shares Issue will not proceed if the Whitewash Waiver is not granted by the Executive or the Proposed A Shares Issue is not approved by the Independent Shareholders at the AGM and the Class Meetings, or if the Whitewash Waiver is not approved by at least 75% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the AGM.

As at the Latest Practicable Date, the Company does not believe that the Proposed A Shares Issue gives rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Proposed A Shares Issue does not comply with other applicable rules and regulations which relates to the Proposed A Shares Issue.

HHC, its associates and parties acting in concert with it (including Hualu Investment and Well Bring) and those who are involved in or interested in the Proposed A Shares Issue and/or the Whitewash Waiver (including Mr. Du, an executive Director and general manager of the Company who was responsible for handling of and negotiations concerning the Proposed A Shares Issue on behalf of the Company) will be required to abstain from voting in respect of the resolution(s) to approve the Proposed A Shares Issue and the Whitewash Waiver at the AGM and the Class Meetings (as the case may be).

Prior to the Proposed A Shares Issue, HHC, which is the existing controlling Shareholder of the Company, holds 36.63% of the total number of Shares of the Company in issue. Immediately upon the completion of the Proposed A Shares Issue, assuming no other change in the number of issued shares in the Company, HHC will remain as a controlling Shareholder of the Company. The Proposed A Shares Issue will not result in a change in controlling Shareholder of the Company.

ADDITIONAL DISCLOSURE OF INTEREST

As at the Latest Practicable Date, other than the A Shares to be subscribed for by HHC pursuant to the A Shares Subscription Agreement and the Shares currently held by HHC in aggregate, HHC confirms that:

(i) none of HHC or parties acting in concert with it has dealt in any Shares, acquired or entered into any agreement to acquire any voting rights in the Company during the Relevant Period;

(ii) none of HHC or parties acting in concert with it will make any acquisitions or disposals of voting rights in the Company in the period between the Announcement and the completion of the Proposed A Shares Issue;

(iii) there is no holding of voting rights in the Company or rights over any Shares which is owned, controlled or directed by HHC or any person acting in concert with HHC;

(iv) none of HHC or parties acting in concert with it has received any irrevocable commitment from any person to vote for or against the resolutions to be proposed at the AGM to approve the Proposed A Shares Issue and/or the Whitewash Waiver;

(v) HHC and parties acting in concert with it do not hold any outstanding options, warrants, derivatives or any securities that are convertible into Shares or any derivatives in respect of securities in the Company;

(vi) there is no outstanding derivative in respect of the securities of the Company which has been entered into by any of HHC and parties acting in concert with it;

(vii) save for the Proposed A Shares Issue, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares or shares of any of HHC and parties acting in concert with it and which might be material to the transactions contemplated under the Proposed A Shares Issue or the Whitewash Waiver;

(viii) save for the aggregate subscription price payable under the A Shares Subscription Agreement, none of HHC or parties acting in concert with it has paid or will pay any other considerations, compensations or benefits in whatever form to the Company or any parties acting in concert with it in relation to the A Shares Issue;

(ix) none of HHC or parties acting in concert with it has entered into any understanding, arrangement, agreement which constitutes special deal (as defined under Rule 25 of the Takeovers Code) with any of the Shareholders;

(x) none of the Company, its subsidiaries or associated companies has entered into any understanding, agreement, arrangement which constitutes special deal (as defined under Rule 25 of the Takeovers Code) with any of the Shareholders;

(xi) save for the A Shares Subscription Agreement, there are no agreements or arrangements to which HHC is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition under the Proposed A Shares Issue or the Whitewash Waiver; and

(xii) none of HHC or parties acting in concert with it has borrowed or lent any Shares or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

ESTABLISHMENT OF CODE INDEPENDENT BOARD COMMITTEE AND LISTING RULES INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

Pursuant to Rule 2.8 of the Takeovers Code, the Code Independent Board Committee for advising from the Takeovers Code's perspective (including the Proposed A Shares Issue and the Whitewash Waiver) should comprise all non-executive Directors and independent non-executive Directors who have no interest in the Proposed A Shares Issue and Whitewash Waiver other than as a Shareholder. For the avoidance of doubt, Mr. Cong Kechun, a non-executive Director, will not be a member of the Code Independent Board Committee in accordance with Rule 2.8 of the Takeovers Code due to his directorships or capacities as a member of the management of HHC.

The Listing Rules Independent Board Committee (comprising Mr. Pan Guangcheng, Mr. Zhu Jianwei and Mr. Lo Wah Wai, being all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Proposed A Shares Issue and the Specific Mandate.

Octal Capital Limited has been appointed with the approval of the Code Independent Board Committee as the Independent Financial Adviser to advise the Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders in relation to the Proposed A Shares Issue and Whitewash Waiver.

OTHER INFORMATION

Reference is made to information regarding net profits attributable to shareholders of the Company in the financial year ending 31 December 2021 before and after deduction of non-recurring items (set out in the paragraph headed "I. Analysis on the impact of risks arising from dilution of current returns by the non-public issuance on the key financial indicators – (II) Impact on key financial indicators" of the Section VII – Dilution of Current Returns and Remedial Measures) in the announcement of the Company headed "2021 Proposal for Non-Public Issuance of A Shares" ("**A Share Announcement**") which was published on the websites of the SZSE (http://www.szse.cn/) and Juchao (http://www.cninfo.com.cn) on 14 April 2021 (the "**Relevant Information**"), and reproduced in the overseas regulatory announcement of the Company published on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) on the same day. The Relevant Information is reproduced in section VII – Dilution of Current Returns and Remedial Measures of Appendix I to this circular.

The Relevant Information is set out in the A Share Announcement and in this circular in compliance with applicable laws and regulations of the PRC. While the Relevant Information constitutes a profit forecast under Rule 10 of the Takeovers Code, Shareholders and other investors should note that the Relevant Information, and any assumptions on which the Relevant Information were based, have not been prepared in compliance with the standards of care required under Rule 10 of the Takeovers Code and have not been reported on by financial advisers, auditors or accountants in accordance with the said Rule 10. Therefore, the Relevant Information should not be relied upon as a forecast of any future profitability or other financial position of the Company.

Shareholders and other investors should exercise caution when reading and interpreting the Relevant Information and when assessing the merits or demerits of the Proposed A Shares Issue and dealing or investing in the Shares or other securities of the Company.

The Executive has granted a waiver to the Company from its obligation to comply with the reporting requirements set out in Rule 10 of the Takeovers Code as regards the Relevant Information.

GENERAL

Information on The Company

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 SZSE respectively. The Company principally engages in the development, manufacture and sale of bulk pharmaceuticals, preparations and chemical products.

Information on Hualu Investment

Hualu Investment is a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of HHC. It is principally engaged in foreign investment through its own funds, management and investment consulting.

Information on HHC

HHC is a state-owned enterprise principally engaged in investment holding of various companies listed or not listed on the stock exchanges of the mainland China and Hong Kong.

The shares in HHC are owned:

(i) as to 59.16% owned by Shandong State-owned Assets Supervision and Administration Commission (山東省國有資產監督管理委員會);

(ii) as to 8.45%owned by Shandong Social Security Fund Council (山東省社會保障基金理事會);

(iii) as to 12.17% owned by Shandong Finance Investment Group Co., Ltd. (山東省財金投資集團有限公司);

(iv) as to 3.32% owned by Shandong Development Investment Holding Group Co., Ltd. (山東發展投資控股集團有限公司); and

(v) as to 16.90% owned by Shandong Guohui Investment Co., Ltd. (山東國惠投資有限公司).

Information on Well Bring

Well Bring is a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of HHC. It is principally engaged in foreign investment.

3. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Reference is made to the Company's announcement dated 30 March 2021.

Following the completion of the first exercise period of the Share Option Scheme adopted by the Company in 2018 on 19 January 2021, the share capital of the Company has increased by 5,508,000 shares, and the total share capital of the Company has increased from 621,859,447 shares to 627,367,447 shares. Taking into account such changes, the Board has proposed certain amendments to the Articles of Association (the "**Proposed Amendments**").

The Board convened a meeting of the Board on 30 March 2021, and considered and approved, among others, the resolutions in relation to the Proposed Amendments.

The Company confirms that the Proposed Amendments will not have any adverse effect to the existing businesses and operations of the Company and its subsidiaries and the Directors confirm that the Proposed Amendments are in compliance with the Listing Rules. As confirmed by the Company's PRC legal adviser, the Proposed Amendments comply with the applicable PRC laws and regulations.

The full text of the Proposed Amendments, which were prepared in the Chinese language, are set out in Appendix V to this circular, respectively. The English translation is for reference only. In the event of any discrepancy between the Chinese and the English version of the Proposed Amendments, the Chinese version shall prevail.

4. AGM AND CLASS MEETINGS

The AGM will be convened to consider and, if thought fit, approve resolutions relating to, among others, (i) the Proposed A Shares Issue; (ii) the Specific Mandate; (iii) the Whitewash Waiver; (iv) the authorisation to the amendments to the Articles of Association and (v) the Proposed Amendments.

The Class Meetings will be convened to consider and, if thought fit, approve resolutions relating to (i) the Proposed A Share Issues; and (ii) the Specific Mandate.

HHC, its associates and parties acting in concert with it (including Hualu Investment and Well Bring), and those who are involved in or interested in the Proposed A Shares Issue and/or the Whitewash Waiver (including Mr. Du, an executive Director and general manager of the Company who was responsible for handling of and negotiations concerning the Proposed A Shares Issue on behalf of the Company) will be required to abstain from voting on the corresponding resolutions to be proposed at the AGM and/or the Class Meetings.

The voting in relation to the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific. Mandate, and the Whitewash Waiver will be conducted by way of poll.

A notice convening the AGM and H Share Class Meeting to be held at the conference room of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC on 30 June 2021, Wednesday at 2:00 p.m. is also set out on pages AGM & HCM-1 to AGM & HCM-13 of this circular. (i) A notice convening the AGM to be held at the conference room of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC on 30 June 2021, Wednesday at 2:00 p.m.; (ii) a notice convening the H Share Class Meeting to be held at the conference room of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC on 30 June 2021, Wednesday at 4:00 p.m. (or immediately after the conclusion or adjournment of the A Share

Class Meeting to be held on the same day at the same venue at 3:00 p.m. or immediately after the conclusion or adjournment of the AGM); and (iii) the proxy form and reply slip in relation to the AGM and H Share Class Meeting are enclosed and also published and available for downloading on the websites of the Hong Kong Stock Exchange at www.hkex.com.hk and of the Company at http://www.xhzy.com.

Whether or not you intend to attend the AGM and H Share Class Meeting, 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 AGM and H Share Class Meeting (or any adjournments thereof). Completion and return of the proxy form will not preclude you from attending and voting in person at the AGM and H Share Class Meeting or any adjournment thereof (as the case may be) should you so wish. Shareholders who intend to attend the AGM and H Share Class Meeting should also complete and return the reply slip in accordance with the instructions printed thereon.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder is required to abstain from voting on the special resolution in relation to the Proposed Amendments at the AGM.

5. VOTING BY POLL

According to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the chairman of the AGM will exercise his power under the Articles of Association to demand a poll in relation to all proposed resolution at the AGM.

6. RECOMMENDATIONS

Having taken into account, among other things, the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in the "Letter from Octal Capital Limited" in this circular, the Code Independent Board Committee and the Listing Rules Independent Board Committee concur with the view of the Independent Financial Adviser and consider that the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms or better, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Code Independent Board Committee and the Listing Rules Independent Board Committee recommend the Independent Shareholders to vote in favour of all the resolutions to be proposed at the AGM and the Class Meetings.

Independent Shareholders are reminded to read:

(a) the letter from the Code Independent Board Committee containing its recommendations in respect of (i) the Proposed A Shares Issue; (ii) the Specific Mandate; and (iii) the Whitewash Waiver;

(b) the letter from the Listing Rules Independent Board Committee containing its recommendations in respect of (i) the Proposed A Shares Issue and (ii) the Specific Mandate; and

(c) the letter from the Independent Financial Adviser containing its advice to the Code Independent Board Committee, Listing Rules Independent Board Committee and Independent Shareholders on the (i) Proposed A Shares Issue, (ii) the Whitewash Waiver and (iii) as to voting.

The independent non-executive Directors believe that:

1. the Proposed A Shares Issue complies with the relevant laws, rules and other regulations such as the "Company Law of the People's Republic of China" (《中華人民共和國公司法》), "Securities Law of the People's Republic of China"(《中華人民共和國證券法》), "Administrative Measures for the Issuance of Securities by Listed Companies"(《上市公司證券發行管理辦法》) and "Implementation Rules for Non-public Issuance of Shares by Listed Companies" (《上市公司非公開發行股票實施細則》). The Proposed A Shares Issue is acceptable and feasible, and is in line with the Company's long-term development plan and in the interests of Shareholders as a whole, and there are no circumstances which may harm the interests of the Company and its Shareholders;

2. the reasons for the Proposed A Shares Issue are valid and sufficient, the pricing principles and methods are appropriate and acceptable, and all necessary internal decision-making procedures for the Proposed A Shares Issue will be complied with. The Proposed A Shares Issue does not violate the principles of openness, impartiality and equality, and there are no circumstances which may harm the interests of the Company and its Shareholders, in particular the minority Shareholders; and

3. the terms and signing procedures of the A Shares Subscription Agreement comply with the laws, rules and other regulatory documents, and there are no circumstances which may harm the interests of the Company and its Shareholders as a whole.

The Board considers that the special resolution in relation to the Proposed Amendments proposed at the AGM is in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the proposed special resolution at the AGM.

7. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Code Independent Board Committee set out on pages 33 to 34 of this circular; (ii) the letter from the Listing Rules Independent Board Committee set out on pages 35 to 36 of this circular and (iii) the letter from the Independent Financial Adviser to the Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders set out on pages 37 to 71 of this circular; and (iii) the appendices to this circular.

8. 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.

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

31 May 2021, Zibo, the People's Republic of China

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)

31 May 2021

To the Independent Shareholders

Dear Sir or Madam,

(1) PROPOSED NON-PUBLIC ISSUANCE OF NEW A SHARES; (2) CONNECTED TRANSACTION IN RELATION TO THE PROPOSED SUBSCRIPTION OF A SHARES BY HUALU INVESTMENT; AND (3) APPLICATION FOR WHITEWASH WAIVER

We refer to the circular of the Company dated 31 May 2021 (the "**Circular**"), of which this letter forms part. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Code Independent Board Committee to advise the Independent Shareholders in respect of the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver, details of which are set out in the "Letter from the Board" in the Circular. Octal Capital Limited has been appointed as the Independent Financial Adviser with our approval to advise the Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders in this regards.

We wish to draw your attention to the "Letter from the Board" set out on pages 1 to 32 of the Circular and the "Letter from Octal Capital Limited" set out on pages 37 to 71 of the Circular and the additional information set out in the appendices of this Circular.

Having taken into account, among other things, the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in the "Letter from Octal Capital Limited" in the Circular, we concur with the view of the Independent Financial Adviser and consider that:

(i) although the entering into of the A Shares Subscription Agreement is not in the ordinary and usual course of business of the Company, the terms of the Proposed A Shares Issue, the A Shares Subscription Agreement and the Specific Mandate (i) are fair and reasonable, (ii) are on normal commercial terms and (iii) are in the interests of the Company and the Independent Shareholders as a whole; and

(ii) the terms of the Proposed A Shares Issue and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we recommend you to vote in favour of all the resolutions to be proposed at the AGM and the Class Meetings.

Yours faithfully
For and on behalf of the Code Independent Board Committee

Xu Lie	**Pan Guangcheng**	**Zhu Jianwei**	**Lo Wah Wai**
Non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

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)

31 May 2021

To the Independent Shareholders

Dear Sir or Madam,

(1) PROPOSED NON-PUBLIC ISSUANCE OF NEW A SHARES; (2) CONNECTED TRANSACTION IN RELATION TO THE PROPOSED SUBSCRIPTION OF A SHARES BY HUALU INVESTMENT; AND (3) APPLICATION FOR WHITEWASH WAIVER

We refer to the circular of the Company dated 31 May 2021 (the "**Circular**"), of which this letter forms part. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Listing Rules Independent Board Committee to advise the Independent Shareholders in respect of the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver, details of which are set out in the "Letter from the Board" in the Circular. Octal Capital Limited has been appointed as the Independent Financial Adviser with our approval to advise the Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders in this regards.

We wish to draw your attention to the "Letter from the Board" set out on pages 1 to 32 of the Circular and the "Letter from Octal Capital Limited" set out on pages 37 to 71 of the Circular and the additional information set out in the appendices of this Circular.

Having taken into account, among other things, the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in the "Letter from Octal Capital Limited" in the Circular, we concur with the view of the Independent Financial Adviser and consider that:

(i) although the entering into of the A Shares Subscription Agreement is not in the ordinary and usual course of business of the Company, the terms of the Proposed A Shares Issue, the A Shares Subscription Agreement and the Specific Mandate (i) are fair and reasonable, (ii) are on normal commercial terms and (iii) are in the interests of the Company and the Shareholders as a whole; and

(ii) the terms of the Proposed A Shares Issue are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend you to vote in favour of all the resolutions to be proposed at the AGM and the Class Meetings.

Yours faithfully
For and on behalf of the Listing Rules Independent Board Committee
Pan Guangcheng **Zhu Jianwei** **Lo Wah Wai**
Independent non-executive Directors

The following is the text of the letter of advice dated 31 May 2021 from Octal Capital Limited to the Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders prepared for the purposes of Chapter 14A of the Hong Kong Listing Rules and Rule 26.1 of the Takeovers Code and for inclusion in this circular in respect of the Proposed A Shares Issue and Whitewash Waiver.

八方金融有限公司
OCTAL Capital Limited

Octal Capital Limited
801-805, 8/F, Nan Fung Tower
88 Connaught Road Central
Hong Kong

To the Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders

31 May 2021

Dear Sirs,

**(1) PROPOSED NON-PUBLIC ISSUANCE OF NEW A SHARES;
(2) CONNECTED TRANSACTION IN RELATION TO THE PROPOSED SUBSCRIPTION OF A SHARES BY HUALU INVESTMENT; AND
(3) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Code Independent Board Committee, the Listing Rule Independent Board Committee and the Independent Shareholders in relation to the Proposed A Shares Issue, the Specific Mandate and the Whitewash Waiver, details of which are contained in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 31 May 2021 (the "**Circular**"). Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

As set out in the Letter from the Board, on 14 April 2021, the Board approved the Proposed A Shares Issue, and the Company entered into the A Shares Subscription Agreement with Hualu Investment, pursuant to which the Company will, subject to satisfaction of the conditions precedent set out therein, issue 36,284,470 A Shares (representing approximately 5.78% of the total existing number of Shares in issue) to Hualu Investment for a cash issue price of RMB6.89 per A Share (the "**Issue Price**"). The proceeds expected to be raised from the Proposed A Shares Issue (before deducting relevant expenses related to the issuance) will amount to RMB250,000,000.

As at the Latest Practicable Date, Hualu Investment is a wholly owned subsidiary of HHC, the controlling shareholder holding approximately 36.63% of the total number of Shares in issue of the Company, and is therefore a connected person of the Company under the Listing Rules. As such, the subscription by Hualu Investment of A Shares pursuant to the A Shares Subscription Agreement in respect of the Proposed A Shares Issue constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Specific Mandate is sought from the Shareholders as required under Rule 13.36 of the Listing Rules, as modified by Chapter 19A of the Listing Rules.

HHC's aggregate shareholding in the Company is expected to increase from approximately 36.63% to (i) approximately 40.10% immediately after the completion of the Proposed A Shares Issue ("**Completion**"); and (ii) approximately 39.46% immediately after the Completion and exercise of all outstanding Share Options. In the absence of an applicable waiver, the Proposed A Shares Issue will give rise to an obligation on the part of HHC (and persons acting in concert with it) to make a mandatory offer for all the Shares (other than those already owned or agreed to be acquired by it) under Rule 26.1 of the Takeovers Code.

HHC has applied for the Whitewash Waiver from compliance with Rule 26.1 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, is expected to be subject to, among other things, the Whitewash Waiver being approved by at least 75% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the AGM and the Proposed A Shares Issue and the A Shares Subscription Agreement being approved by more than 50% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the AGM, as required under the Takeovers Code. Further, under the Articles of Association, the Proposed A Shares Issue and the A Shares Subscription Agreement will have to be approved by at least two-thirds of the votes cast on a poll by the Independent Shareholders at each of the AGM, the A Shares Class Meeting and the H Shares Class Meeting.

The Proposed A Shares Issue will not proceed if the Whitewash Waiver is not granted by the Executive or the Proposed A Shares Issue is not approved by the Independent Shareholders at the AGM and the Class Meetings, or if the Whitewash Waiver is not approved by at least 75% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the AGM.

The Listing Rules Independent Board Committee (comprising Mr. Pan Guangcheng, Mr. Zhu Jianwei and Mr. Lo Wah Wai, being all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Proposed A Shares Issue and the Specific Mandate. The Code Independent Board Committee (comprising all non-executive Directors and independent non-executive Directors (excluding Mr. Cong Kechun due to his directorships or capacities as a member of the management of HHC) has been formed in accordance with Takeovers Code to advise the Independent Shareholders on the Proposed A Shares Issue, the Specific Mandate and the Whitewash Waiver. Our appointment as the Independent Financial Adviser has been approved by the Code Independent Board Committee to advise the Code Independent Board Committee, the Listing Rule Independent Board Committee and the Independent Shareholders in relation to the Proposed A Shares Issue and Whitewash Waiver.

As at the Latest Practicable Date, we, Octal Capital Limited, (i) are not connected with the directors, chief executives and substantial shareholders of the Company, HHC or Hualu Investment or any of their respective subsidiaries or associates or parties acting in concert with any of them; and (ii) do not have any shareholding, directly or indirectly, in any 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. We are therefore considered suitable to give independent advice to the Code Independent Board Committee, the Listing Rule Independent Board Committee and the Independent Shareholders.

During the last two years, other than this appointment concerning the Proposed A Shares Issue, we have not entered into any engagement with the Company, HHC, Hualu Investment or any of their respective subsidiaries or associates. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we have or will receive any fees or benefits from the Group or any director, chief executive or substantial shareholders of the Company, HHC, Hualu Investment or any of its subsidiaries, or their respective associates.

In formulating our opinion set out herein, we have relied on the accuracy of the information and representations contained in the Circular (other than in this letter) and have assumed that all information and representations made or referred to in the Circular (other than in this letter) were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the Directors and management of the Company in relation to the terms of the Proposed A Shares Issue, the Specific Mandate and Whitewash Waiver, including the information and representations contained in the Circular. We consider that we have reviewed sufficient information to reach an informed view to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Company, HHC, Hualu Investment or their respective associates nor have we carried our any independent verification of the information supplied to us. Should there be any subsequent material changes which occurred during the period from the date of the Circular up to the date of the AGM and H Share Class Meeting that would affect or alter our opinion on the Proposed A Shares Issue, we will notify the Code Independent Board Committee, the Listing Rule Independent Board Committee and the Independent Shareholders as soon as possible.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion set out herein, we have taken into account the following principal factors and reasons.

1. Background of the Group, Hualu Investment and HHC

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 SZSE respectively. The Company principally engages in the development, manufacture and sale of bulk pharmaceuticals, preparations and chemical products.

Hualu Investment is a company incorporated in the PRC with limited liability and is a wholly-owned subsidiary of HHC. It is principally engaged in making foreign investments through the use of its own funds as well as investment management and consulting.

HHC is a state-owned enterprise principally engaged in investment holding of various private companies and companies listed on the stock exchanges of the Mainland China and Hong Kong.

As at the Latest Practicable Date, the shares in HHC is owned:

(i) as to 59.16% owned by Shandong State-owned Assets Supervision and Administration Commission (山東省國有資產監督管理委員會);

(ii) as to 8.45% owned by Shandong Social Security Fund Council (山東省社會保障基金理事會);

(iii) as to 12.17% owned by Shandong Finance & Finance Investment Group Co., Ltd. (山東省財金投資集團有限公司);

(iv) as to 3.32% owned by Shandong Development Investment Holding Group Co., Ltd. (山東發展投資控股集團有限公司); and

(v) as to 16.90% owned by Shandong Guohui Investment Co., Ltd. (山東國惠投資有限公司).

2. Historical financial performance and prospects of the Group

The summary of the consolidated financial information of the Group for the years ended 31 December 2018 ("**FY2018**"), 2019 ("**FY2019**") and 2020 ("**FY2020**") and the three months ended 31 March 2020 ("**1Q2020**") and 2021 ("**1Q2021**") as extracted from the annual reports of the Company for FY2019 and FY2020 and the Company's first quarterly report for 1Q2021 published on the SZSE (the "**1Q2021 Quarterly Report**") respectively are set out as follows:

	FY2018	FY2019	FY2020	1Q2020	1Q 2021
	(restated)				
	(audited)	*(audited)*	*(audited)*	*(unaudited)*	*(unaudited)*
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*	*RMB'million*
Total revenue	**5,244**	**5,606**	**6,006**	**1,706**	**1,768**
– Chemical bulk drugs	2,319	2,388	2,566	824	805
– Preparations	2,213	2,593	2,606	740	746
– Pharmaceutical intermediates and other products	712	625	834	142	217
Operating profit	**345**	**387**	**422**	**116**	**130**
Net profit after tax	**280**	**323**	**347**	**93**	**106**
Net profit attributable to owners of the Company	**255**	**300**	**325**	**86**	**100**
Net profit margin *(Note 1)*	**5.3%**	**5.8%**	**5.8%**	**5.5%**	**6.0%**

	As at 31 December			As at 31 March
	2018	2019	2020	2021
	(restated)			
	(audited)	*(audited)*	*(unaudited)*	*(audited)*
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*
Current Assets	**2,381**	**2,428**	**2,687**	**2,851**
– Monetary funds	786	690	856	914
– Inventories	968	1,130	1,124	915
– Accounts receivable	343	309	380	708
Non-current Assets	**3,572**	**4,008**	**4,406**	**4,428**
– Fixed assets	2,649	2,807	3,117	3,036
Total Assets	**5,953**	**6,436**	**7,093**	**7,279**

	As at 31 December			As at 31 March
	2018	2019	2020	2021
	(restated)			
	(audited)	*(audited)*	*(unaudited)*	*(audited)*
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*
Current Liabilities	**2,361**	**2,485**	**2,381**	**2,150**
– Short-term borrowings	240	540	200	309
– Accounts payable	465	434	453	515
– Other payables	289	334	495	477
– Notes payable	427	364	290	360
Non-current Liabilities	**777**	**840**	**1,321**	**1,594**
– Long-term loans	523	590	463	721
– Long-term payables	–	–	639	642
Total Liabilities	**3,138**	**3,325**	**3,702**	**3,744**
Net Current (Liabilities)/Assets	**20**	**(57)**	**306**	**701**
Total Equity	**2,815**	**3,111**	**3,391**	**3,535**
Equity attributable to the equity holders of the Company	**2,695**	**2,969**	**3,224**	**3,359**
Gearing Ratio *(Note 2)*	**27.1%**	**36.3%**	**37.3%**	**46.1%**

Notes:

1. Net profit margin was calculated by dividing net profit after tax by revenue.

2. Gearing ratio of the Group was calculated by dividing total borrowings by total equity. Total borrowings comprise of short-term borrowings, long-term loans and borrowing from controlling shareholders recorded under the long-term payables.

Financial performance of the Group

The revenue of the Group in the reported periods was generated from (i) the development, production and sales of chemical bulk drugs (the "**Chemical Bulk Drugs**"); (ii) the development, production and sales of preparations (e.g. tablets and injections) (the "**Preparations**"); and (iii) the production and sales of medical intermediate and other products (the "**Medical Intermediates & Other Products**").

For FY2019, the total revenue of the Group was approximately RMB5,606 million, representing an increase of approximately 6.9% compared to that for FY2018. The increase was mainly due to the increase in revenue generated from the sales of Preparations. The operating profit of the Group increased from approximately RMB345 million for FY2018 to RMB387 million for FY2019 and the net profit attributable to owners of the Company increased from approximately RMB255 million for FY2018 to RMB300 million for FY2019, mainly due to the strategy of the Group to focus on expanding sales of Preparations into the international market and the overall enhancement of production efficiency of the Group after upgrading its production chain.

For FY2020, the total revenue of the Group was approximately RMB6,006 million, representing an increase of approximately 7.1% compared to that for FY2019. The increase was mainly due to the increase in revenue generated from the Chemical Bulk Drugs. The operating profit of the Group increased from approximately RMB387 million for FY2019 to RMB422 million for FY2020 and the net profit attributable to owners of the Company increased from approximately RMB300 million for FY2019 to RMB325 million for FY2020, mainly due to the Group's continuous effort in market development and effective cost control on selling expenses.

For 1Q2021, the total revenue of the Group was approximately RMB1,768 million, representing an increase of approximately 3.6% compared to that for 1Q2020. The increase was mainly due to increase in revenue generated from the sales of Medical Intermediates & Other Products. The operating profit increased from approximately RMB116 million for 1Q2020 to RMB130 million for 1Q2021 and the net profit attributable to owners of the Company increased from approximately RMB86 million for 1Q2020 to RMB100 million for 1Q2021, mainly due to the strategy of the Group to focus on expanding the market coverage concerning sales of Medical Intermediates & Other Products and Preparations.

Financial position of the Group

As at 31 March 2021, the major assets of the Group included (i) fixed assets primarily consisting of premises and building, machinery and equipment, transportation equipment and electronic equipment and others which amounted to approximately RMB3,036 million; (ii) inventories mainly consisting of the products in process and goods in stock which amounted to approximately RMB915 million; (iii) monetary funds mainly consisting of bank deposit which amounted to approximately RMB914 million; and (iv) accounts receivable which amounted to approximately RMB708 million, which together these assets accounted for approximately 76.6% of the total assets of the Group.

As at 31 March 2021, the major liabilities of the Group included (i) credit loan in the amount of approximately RMB1,030 million, of which approximately RMB309 million was regarded as current portion and are required to be repaid or settled within one year; (ii) long-term payables in the amount of approximately RMB642 million, of which approximately RMB600 million were borrowings from the controlling Shareholder; (iii) account payable in the amount of approximately RMB515 million; (iv) other payables, which mainly consisted of payment payable for engineering equipment which amounted to approximately RMB477 million; and (v) notes payable which amounted to approximately RMB360 million, and together these liabilities accounted for approximately 80.8% of the total liabilities of the Group.

The Group recorded unaudited net asset value attributable to Shareholders ("**NAV**") of approximately RMB3,359 million as at 31 March 2021. The unaudited NAV per Share of the Company (including the A Shares and the H Shares) was approximately RMB5.35 as at 31 March 2021, calculated by dividing the unaudited NAV of approximately RMB3,359 million by the total number of Shares in issue of 627,367,447 Shares as at 31 March 2021.

The gearing ratio of the Group, calculated by dividing total borrowings which included short-term borrowing, long-term loans and borrowing from the controlling Shareholder by total equity, was approximately 46.1% as at 31 March 2021 as compared to approximately 37.3% as at 31 December 2020. Such increase arose mainly from an increase in amount of outstanding long term loans.

3. Background of and reasons for the Proposed A Shares Issue

As disclosed in the Letter from the Board, the background of and reasons for the Proposed A Shares Issue are as follows:

Enhancing capital strength to ensure capital needs for the Group's development

In FY2018, FY2019 and FY2020, the operating revenue of the Group was approximately RMB5.245 billion, RMB5.606 billion and RMB6.006 billion respectively, representing a compound annual growth rate of 9.76%. With the continuous expansion of the Company's business size, its demand for working capital will continue to grow.

The Company is involved in the pharmaceutical manufacturing industry, and its business involves the development, production and sale of pharmaceutical raw materials, preparations, medical intermediate and other products. Due to demands in terms of production, circulation and management to operate in this industry, the Company is required to incur material annual expenditures for the purchase, maintenance and repair of fixed assets as well as in projects under construction. Further, the industry in which the Company operates in is technology-intensive. As such, in order to maintain its competitive edge and ensure its sustainable development, the Company needs to continue its investing in research and development and technological improvements. In addition, in order to further expand and optimise the Company's position as a contract manufacturing and contract research organization as well as in other business areas, the Company will also increase its research and development expenditure in the future. With the steady development of the Company's business, there will be increasing working capital requirements.

It is expected that the raising of funds to supplement the Company's working capital through the Proposed A Shares Issue will be conducive to facilitating the Company's resources integration, accelerating the Company's development strategy and strengthening the foundation of sustainable development for the purpose of laying a solid foundation for the healthy, stable and sustainable development of the Company in order to maximise Shareholders' interests.

Optimising the asset structure and improving the ability to resist risks

As of 31 March 2021, the Company's combined asset-liability ratio was 51.43%, considerably higher than the average of listed companies in the same industry. The capacity to expand the size of the Company's business is limited to a certain extent by the Company's overall capital and debt position. In addition, changes in the external environment such as the COVID-19 pandemic and international trade friction have had a great impact on businesses in various industries. Specifically, in the pharmaceutical industry, higher requirements have become applicable requiring companies in the industry to have a healthy capital structure, be more robust against business risks and to have more operational flexibility.

It is expected that the Proposed A Shares Issue will increase the amount of working capital of the Company, reduce its asset-liability ratio and optimise its capital structure. As a result, the Company's financial position will be further enhanced and in particular, its financial risks will be reduced and capacity to tolerate risks will be enhanced.

Against the background of the impact of the COVID-19 pandemic on the global macro-economy and on the economy of the PRC, the Proposed A Shares Issue will strengthen the Company's capital base to support the growth and development of the Group's business in the future.

The subscriber of the new A Shares to be issued under the Proposed A Shares Issue is Hualu Investment, which is a wholly-owned subsidiary of HHC, the controlling Shareholder of the Company and such subscription reflects the support and confidence the controlling Shareholder has in the Company, which is crucial for the long-term development of the Group. As compared to placing new Shares to independent third parties, the non-public issuance of A Shares under the Proposed A Shares Issue provides an efficient means of raising capital for the Company's present and future needs, as well as reinforces the Group's ties with its controlling Shareholder. Further, the issue price for the new A Shares to be issued was set in compliance with the "Measures for Administration of the Issuance of Securities by Listed Companies"(《上市公司證券發行管理辦

法》) and the "Implementation Rules for Non-public Issuance of Shares by Listed Companies" (《上市公司非公開發行股票實施細則》) promulgated by the CSRC, which require that the minimum issue price of A shares under non-public issuance of A shares must be not less than 80% of the average trading price of the relevant company's shares during the 20 trading days preceding the relevant pricing benchmark date. The Company has additionally considered the audited net asset value per share attributable to the holders of ordinary shares of the parent company at the end of the Company's most recent financial year prior to the Pricing Benchmark Date in determining the Issue Price. Therefore, the Directors (excluding members of the Listing Rules Independent Board Committee and Code Independent Board Committee) believe that the terms of the A Shares Subscription Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

Our views on the reasons for the Proposed A Shares Issue

According to the Proposal for Non-public Issuance of A Shares as set out in Appendix I to the Circular, the total raised proceeds for the Non-Public Issuance shall not exceed RMB250 million, and all of the net proceeds after deducting issue expenditure will be used to repay the interest-bearing liability and supplement the working capital of the Company. Hereinto, the amount of the proceeds used to repay the interest-bearing liability shall not exceed RMB140 million, and the rest of the proceeds shall be used for supplementing the working capital of the Company.

As disclosed in the Company's annual report for FY2020, the Group will fully implement the "Big Research and Development Strategy", further improve the research and development system and research and development platform establishment, further enrich and improve the new drugs of pain control, cardiovascular and cerebrovascular, and anti-cancer in R&D pipeline, accelerate the application of new preparation technology, further improve the high-end drug delivery system, and achieve breakthroughs in antibody drugs and major innovative drugs. In FY2020, the increase in the Group's expenditure on its fixed assets by way of purchase, transfer from construction in progress and investment properties was approximately RMB700.4 million, representing an increase of approximately 42.0% when compared with that of FY2019. During the same period, the Group's research and development expenses was approximately RMB298.3 million, representing an increase of approximately 26.7% when compared with that of FY2019. We are of the view that the continuous expansion of the Group's asset base and research scale would increase its working capital needs and the Proposed A Shares Issue will supplement such working capital necessary to meet its daily production and operation capital needs, further enhance its financial strength as well as strengthen its foundation for sustainable development.

According to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》) promulgated and amended by the Standing Committee of the National People's Congress of the PRC in 2019, the PRC government encourages the research and development of new drugs, and protects the legal rights and interests of citizens, legal persons and other organizations in the research and development of new drugs. When a new drug has gone through clinical trials and passed the evaluation related to the drug safety, effectiveness and quality controllability and the applicant is competent in quality management, risk control and liability compensation, a drug registration certificate will be issued upon approval by the National Medical Products Administration (國家藥品監督管理局). In order to enhance its ability to obtain regulatory approval and commercialise new pharmaceutical products, the Group would need to continue investing in research and development and conduct research on significant clinical generic drugs and innovative drugs. We noted that in order for the Group to support its investments in research and development and maintain sufficient liquidity cushion to support its daily operation, the Group has increased its total borrowings (including short-term borrowings, long-term loans and long-term payables) from approximately RMB836.8 million as at 31 December 2018 to RMB1,672.6 million as at 31 March 2021. As at 31 March 2021, the Group had short-term borrowings (repayable within one year) of approximately RMB309 million, representing an increase of approximately 54.5% as compared to that as at 31 December 2020. Such borrowings have led the Group's gearing ratio to increase from approximately 37.3% as at 31 December 2020 to approximately 46.1% as at 31 March 2021. The reliance on debt financing has increased the liquidity risk and financial risk of the Group as well as the amount of interest expenses incurred, which would hinder the profitability of the Group. We are of the view that the Proposed A Shares Issue (the net proceeds of which would be utilised for, without limitation, the repayment of bank loans due in late 2021 and early 2022 respectively) can alleviate the immediate pressure on the liquidity position and gearing level of the Group, which in turn will enhance the financial stability of the Group.

Having considered (i) the Group's on-going financing need to maintain sufficient working capital to facilitate its operations and support its research and development activities; and (ii) the immediate pressure on the liquidity position and gearing level of the Group, we are of the view that the Proposed A Shares Issue will enhance the Group's capital flexibility and relieve the pressure from liquidity risk in the unstable economic environment, and therefore the Proposed A Shares Issue is in the interests of the Company and Shareholders as a whole.

Other fund raising methods available to the Company

As advised by the Board, other than the Proposed A Shares Issue, the Board has considered the feasibility of other fundraising methods (such as debt financing from bank or money lenders and other forms of equity financing) to raise sufficient funding to finance its interest bearing obligations falling due and to supplement its working capital.

The Board considered that fund raising by way of debt financing would lead to incurrence of additional interest expenses and leverage of the Group, which would worsen gearing level and liquidity position of the Group. Furthermore, debt financing may also be subject to lengthy due diligence and internal risk assessment by banks or money lenders. Under such circumstances, the Board considered that debt financing is not a preferable option for fund raising.

Further, the Board has advised us that it has also considered potential fund raising by way of public or non-public issuance of H Shares. However, with reference to Article 23 of Measures for the Supervision and Administration of State-owned Equity of Listed Companies in China (《上市公司國有股權監督管理辦法》) (SASAC, Ministry of Finance, and CSRC Order No. 36), the price of shares of state-owned listed companies through public issuance or transfer shall not be lower than the higher of (i) the arithmetic average of the daily weighted average price of the 30 trading days before the informative announcement; and (ii) the audited net asset value per share of the listed company in the most recent fiscal year. As the Company is a state-controlled listed company, the Board shall refer to the provisions of the abovementioned article and use no less than the net asset value per share as the pricing basis in equity financing. Meanwhile, the arithmetic average trading price of the H Shares during the 30 consecutive trading days immediately preceding the Pricing Benchmark Date was approximately HK$4.55 per H Share (equivalent to approximately RMB3.86 per H Share), representing a discount of approximately 25.5% to the latest audited NAV as at 31 December 2020 of RMB5.18 per Share. As such, the issuance of H Shares of which the issue price is based on its arithmetic average trading price is not viable under the regulatory requirements of the CSRC.

The Board also considered whether it would be desirable to offer A Shares to the public rather than a private placement as contemplated in the Proposed A Shares Issue. In this regard, the Board considered the regulatory requirements set forth in "Regulatory Requirements for Guiding and Regulating the Financing Behavior of Listed Companies (Revised Edition)" (《關於引導規範上市公司融資行為的監管要求(修訂版)》) (the "**Requirements for Financing**") published by the CSRC on 14 February 2020, wherein it is stated that the portion of proceeds used for supplementing working capital and debt repayment a listed company which has conducted fundraising through means other than non-public issuance or placement of shares or issuance to designated persons approved by the board of directors shall not exceed 30% of the total amount of funds raised. Given that the net proceeds for the Proposed A Shares Issue are intended to be used entirely for repaying interest-bearing liabilities and supplementing the working capital of the Group, the Board considered that equity financing through public issuance of A Share would not be an appropriate fund raising method for the Group.

Having considered the above, the Company is of the view that the Proposed A Shares Issue is an appropriate fundraising method for the Group. Based on the foregoing, after considering (i) the existing gearing level and liquidity position of the Group; (ii) the Measures for the Supervision and Administration of State-owned Equity of Listed Companies in China; and (iii) restriction on equity financing as stipulated in the Requirements for Financing, we concur with the Company that the Proposed A Shares Issue is a more desirable fundraising approach for the Group to finance its interest bearing obligations, improve its financial position and supplement its working capital.

4. Principal terms of the Proposed A Shares Issue

The major terms and conditions of the Proposed A Shares Issue are set out as follows:

Class and par value of Shares to be issued:	Shares to be issued under the Proposed A Shares Issue are new domestically listed ordinary share (A Shares) denominated in RMB, with a par value of RMB1.00 each.
Number of A Shares to be issued:	Subject to the satisfaction of the conditions precedent (as disclosed below), 36,284,470 new A Shares will be issued under the Proposed A Shares Issue, which represent: (i) approximately 8.39% of the existing number of A Shares in issue as at Latest Practicable Date, and approximately 5.78% of the existing total number of Shares in issue as at Latest Practicable Date; and (ii) approximately 7.74% of the number of A Shares in issue and approximately 5.47% of the total number of Shares in issue, in each case as enlarged by the number of A Shares to be issued upon Completion.

The number of A Shares to be issued under the Proposed A Shares Issue (being 36,284,470 A Shares) is arrived at by dividing the total amount of funds to be raised by the Company thereunder (being RMB250,000,000) by the issue price per A Share to be determined based on the principles as set out in the paragraph headed "Issue price, Pricing Benchmark Date and pricing principles" in the Letter from the Board. Provided that such number of A Shares to be issued shall not be more than 30% of the total existing number of Shares in issue, the final number of A Shares to be issued under the Proposed A Shares Issue shall be subject to (i) determination by the sponsor and lead underwriter in accordance with the relevant requirements of the CSRC; (ii) obtaining applicable approval from the CSRC; and (iii) obtaining the Specific Mandate required for the issuance of the relevant A Shares in the AGM and the Class Meetings.

The number of A Shares to be issued under the Proposed A Shares issue will be adjusted if, during the period from the Pricing Benchmark Date to the Issuance Date, any event which may alter the total number of Shares of the Company (such as, without limitation, a dividend distribution, an issuance of bonus shares or a conversion of capital reserve into share capital) occurs which may lead to an adjustment to the issue price (as set out in the paragraph headed "Issue price, Pricing Benchmark Date and pricing principles" below).

Subscriber and method of subscription: The subscriber of the Proposed A Shares Issue is Hualu Investment, which has agreed to subscribe for all the A Shares to be issued under the Proposed A Shares Issue by way of cash in RMB.

Method and time of issue: The Proposed A Share Issue will be carried out by way of non-public issuance of A Shares to Hualu Investment. Subject to the satisfaction of all the conditions precedent, the Company will issue A Shares to Hualu Investment (within the validity period of the resolutions described below) after obtaining the approval from the CSRC.

Issue price, Pricing Benchmark Date and pricing principles

The issue price of the A Shares, being the subscription price payable by Hualu Investment under the Proposed A Shares Issue, is RMB6.89 per A Share, which is: (i) not less than 80% of the average trading price of the A Shares over the 20 trading days preceding the Pricing Benchmark Date (which is calculated by dividing the total trading turnover of A Shares traded in the 20 trading days preceding the Pricing Benchmark Date by the total volume of A Shares traded in those 20 trading days); and (ii) not less than the unaudited net asset value per share attributable to the holders of ordinary shares of the parent company at the end of the Company's most recent financial year prior to the Pricing Benchmark Date, whichever is higher, in each case rounded up to two decimal places.

If, during the period from the Pricing Benchmark Date to the Issuance Date, any ex-right or ex-dividend event (such as, without limitation, a dividend distribution, an issue of bonus shares or a conversion of capital reserve into share capital) occurs, the issue price shall be adjusted based on the following formula:

Cash distribution:

$$P1 = P0 - D$$

Issue of bonus shares or conversion of capital reserve into share capital:

$$P1 = P0/(1 + N)$$

Cash distribution and issue of bonus shares or conversion of capital reserve into share capital take place simultaneously:

$$P1 = (P0 - D)/(1 + N)$$

where:

(i) P0 denotes the issue price before adjustment;

(ii) D denotes the amount of cash to be distributed per Share;

(iii) N denotes the number of Shares to be distributed as bonus or converted from the capital reserve per Share; and

(iv) P1 denotes the new issue price after adjustment.

The above adjustment shall be made in accordance with requirements prescribed under Rule 12 of the "Implementation Rules for Non-public Issuance of Shares by Listed Companies"《上市公司非公開發行股票實施細則》(the "**Implementation Rules**") promulgated by the CSRC.

Conditions precedent for the A Shares Subscription Agreement to take effect:

Completion of the A Shares Subscription Agreement is conditional upon satisfaction of the following conditions, and will take effect when all those conditions have been satisfied:

(i) in accordance with the relevant laws and the Articles of Association, the approval of the plan of the Proposed A Shares Issue and related matters has been obtained at the Board meeting, the AGM and the Class Meetings;

(ii) the obtaining of approval of the Whitewash Waiver from Independent Shareholders at the AGM in compliance with applicable requirements of the Takeovers Code, and HHC and persons acting in concert with it being exempt from the obligation to make a general offer under applicable laws and regulations of the PRC;

(iii) the approval from the relevant state-owned assets supervision and administration authorities of the PRC for the Proposed A Shares Issue having been obtained;

(iv) the approval from the CSRC for the Proposed A Shares Issue having been obtained; and

(v) the grant of the Whitewash Waiver by the Executive to HHC and the parties acting in concert with it in accordance with the Takeovers Code.

None of the above conditions precedent are waivable.

In relation to condition (ii) above, under section 63 of the Measures for the Administration of the Takeover of Listed Companies (《上市公司收購管理辦法》) and the applicable PRC rules, a person would be exempt from making a general offer arising from his subscription a new issuance of shares if the approval of independent shareholders of a listed company has been obtained. In this regard, it is intended that the approval of Independent Shareholders of relevant resolutions be passed at the AGM such that HHC and persons acting in concert with it would be exempt from making a general offer for securities of the Company as a result of the Proposed A Shares Issue.

As at the Latest Practicable Date, the approval from the Board for the Proposed A Shares Issue has been obtained. However, the conditions precedent set out under the A Shares Subscription Agreement described above have not been satisfied.

Under the Listing Rules, the resolutions for the approval of the Proposed A Shares Issue, the A Shares Subscription Agreement and the Specific Mandate are required to be approved by a simple majority of the votes that are cast either in person or by proxy by the Independent Shareholders at the AGM and the Class Meetings.

The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the Whitewash Waiver being approved by at least 75% of the independent votes that are cast either in person or by proxy at the AGM, and the Proposed A Shares Issue and the A Shares Subscription Agreement being approved by more than 50% of the independent votes that are cast either in person or by proxy at the AGM, as required under the Takeovers Code. Further, under the Articles of Association, the Proposed A Shares Issue and the A Shares Subscription Agreement will have to be approved by at least two-thirds of the votes cast on a poll by the Independent Shareholders at each of the AGM and the Class Meetings.

Lock-up period: Hualu Investment shall not, and undertakes not to, transfer the A Shares subscribed for under the Proposed A Shares Issue within 36 months from the date of Completion.

The above lock-up arrangement shall also apply to any Shares derived from the A Shares subscribed by Hualu Investment under the Proposed A Shares Issue in the circumstances such as those derived from, without limitation, a distribution of stock dividend or a conversion of capital reserves to share capital.

Total funds to be raised and used: The total funds expected to be raised from the Proposed A Shares Issue (before deducting relevant expenses related to the issuance) will amount to RMB250,000,000.

Proposed use of proceeds: The net proceeds from the Proposed A Shares Issue (after deducting relevant expenses related to the issuance) are intended to be used to supplement working capital, and repay interest-bearing liabilities, of the Group.

In particular, it is intended that (subject to necessary adjustments based on actual operational needs under prevailing circumstances):

(i) approximately RMB50,000,000 would be used for the repayment of the one-year term loan granted to the Group by Zhangdian District Branch of Industrial and Commercial Bank of China, the repayment of which is due on 9 November 2021;

(ii) approximately RMB90,000,000 would be used for the repayment of the three-year term loan granted to the Group by Zibo Branch of China CITIC Bank, the repayment of which is due on 12 April 2022; and

(iii) the remaining net proceeds would be used for supplementing the working capital of the Group, of which (a) approximately RMB80,000,000 is expected to be used for purchasing raw materials for the production of chemical bulk drugs and preparations (in anticipation of expected demand for such products given that there has been an uptrend of demand in pharmaceuticals active pharmaceutical ingredients (such as antipyretic and analgesic and preparations) produced by the Group in recent years); and (b) the remainder would be used for settling increased production costs (including utility expenses) associated with the expected increase in our production capacity.

Place of listing: The Company will apply to the SZSE for the listing of, and permission to deal in, the A Shares to be issued under the Proposed A Shares Issue. Upon Completion, these A Shares will be listed on the SZSE.

Validity period of the resolutions: The resolutions regarding the Proposed A Shares Issue shall be valid for 12 months from the date on which the relevant resolutions are considered and approved at the AGM and the Class Meetings.

Further details of the Proposed A Shares Issue are set out in the Letter from the Board.

Issue Price

The Issue Price of RMB6.89 represents:

(i) a discount of approximately 23.0% over the closing price of RMB8.95 per A Share as quoted on the SZSE on the Latest Practicable Date;

(ii) a discount of approximately 20.5% to the closing price of RMB8.67 per A Share on the last trading date (i.e. 14 April 2021) before the publication of the Announcement (i.e. the last day immediately preceding the Pricing Benchmark Date);

(iii) a discount of approximately 20.3% over the closing price of RMB8.64 per A Share as quoted on the SZSE on the Pricing Benchmark Date;

(iv) a discount of approximately 21.5% over the average closing price of RMB8.78 per A Share as quoted on the SZSE for the last five consecutive trading days immediately prior to Pricing Benchmark Date;

(v) a discount of approximately 20.5% over the average closing price of RMB8.67 per A Share as quoted on the SZSE for the last ten consecutive trading days immediately prior to Pricing Benchmark Date;

(vi) a discount of approximately 19.1% over the average closing price of RMB8.52 per A Share as quoted on the SZSE for the last 20 consecutive trading days immediately prior to Pricing Benchmark Date;

(vii) a premium of approximately 28.8% over the unaudited NAV per Share of RMB5.35 as at 31 March 2021; and

(viii) a premium of approximately 8.0% over the unaudited adjusted NAV (the "**Adjusted NAV**") *Note* per Share of RMB6.38 as at 31 March 2021

Note:

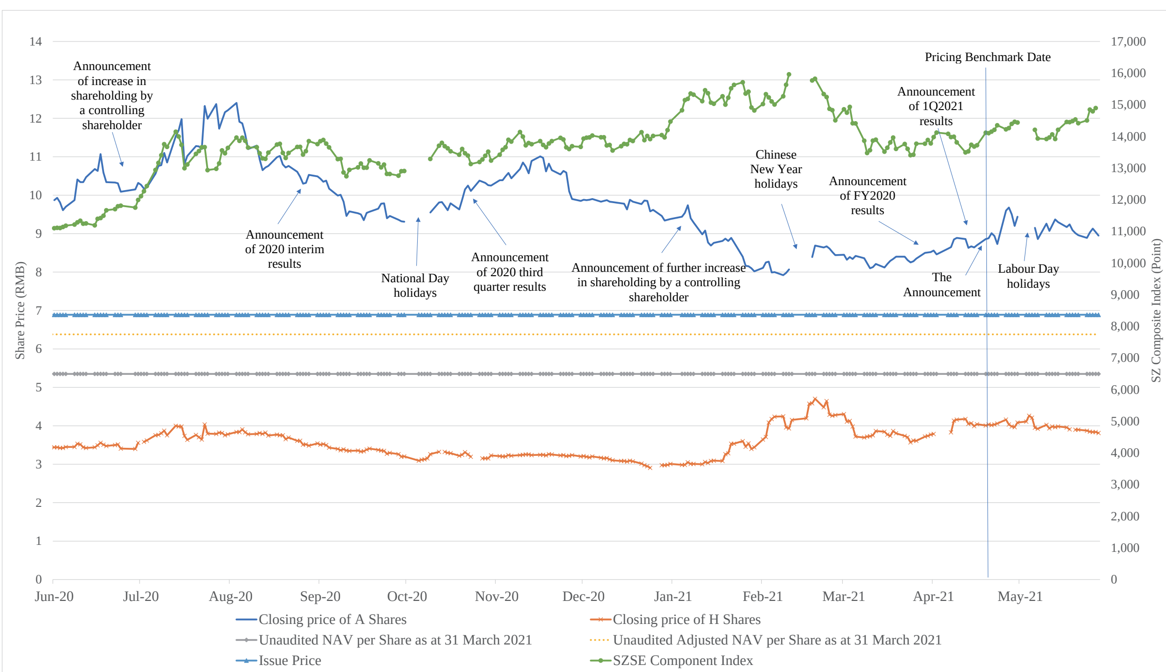
The Adjusted NAV is calculated based on the unaudited NAV as at 31 March 2021, adjusted with reference to the valuation of properties as at 30 April 2021 as set out in Appendix VI to the Circular. Details of the adjustment are set out in the table below:

	RMB' million
The unaudited NAV as at 31 March 2021	3,359.5
Add:	
The valuation of properties as at 30 April 2021 (including the value of both property interests with and without proper title certificates) as set out in Appendix VI to the Circular	2,414.5
Less:	
The carrying value of the properties held by the Group as at 31 March 2021	(1,770.9)
The unaudited Adjusted NAV as at 31 March 2021	4,003.1

To further assess the fairness and reasonableness of the Issue Price, we set out the following analysis for illustrative purposes:

(i) *Review of A Share price*

We have analysed the historical closing price of the A Shares during the past twelve months and up to the Pricing Benchmark Date. The following chart illustrates the daily closing price of the A Shares as quoted on the SZSE, the daily closing price of the H Shares as quoted on the Hong Kong Stock Exchange, SZSE Composite Index, the unaudited NAV per Share as at 31 March 2021 and the unaudited Adjusted NAV per Share per Share as at 31 March 2021, during the period commencing from 1 June 2020 up to the Pricing Benchmark Date (the "**Historical Price Period**") and the period following the Pricing Benchmark Date up to the Latest Practicable Date (the "**Post-announcement Period**"). We consider that the Historical Price Period, being twelve months from the Pricing Benchmark Date, is a fair and reasonable period for our analysis as it can reflect the recent trend of the Shares and provide a general overview of the market sentiment of the A share stock market.



Source: SZSE (http://www.szse.cn/) and Hong Kong Stock Exchange (http://www.hkex.com.hk)

Notes:

1. Trading dates of the A Shares may vary from those of the H Shares.

2. The closing prices of the A Shares and H Shares were adjusted after taking into account the final dividend for FY2019.

3. For illustrative purpose, the exchange rate used to calculate the RMB equivalent of the H Share price is RMB1:HK$1.18.

Based on the above chart, the A Shares were generally traded within a range between approximately RMB9 and RMB12 during the period from 1 June 2020 to 31 December 2020 and were generally traded within a range between RMB8 to RMB10 during the period from 1 January 2021 to the Pricing Benchmark Date.

From June 2020 to early August 2020, the share price of A Shares experienced a rebound and increased generally in line with the trend of the SZSE Component Index (with the closing price of the A Shares increasing from RMB9.87 on 1 June 2020 to RMB12.40 on 3 August 2020). According to the Company's announcement as at 30 June 2020, Well Bring, an indirect wholly-owned subsidiary of HHC, increased its shareholding of the Company by acquiring an aggregate number of 1,200,000 H Shares through the Hong Kong Stock Exchange and this may have been one of the factors which stimulated the closing price of A Shares to move upward during the said period.

From early August 2020 to the Price Benchmark Date, the share price of A Shares exhibited a downward trend. We noted that, on 3 August 2020, the National Healthcare Security Administration of the PRC (國家醫療保障局) promulgated the Work Plan for the Adjustment of 2020 National Medical Insurance Catalog (《2020年國家醫保藥品目錄調整工作方案》) (the "**2020 Work Plan**"), according to which, the price negotiation with drug companies for 2020 National Reimbursement Drug List will be arranged between October and November 2020 and such list will be finalised and published between November and December 2020. Such 2020 Work Plan may place pressure on margins of pharmaceutical companies and this may have been a cause for the closing price of A shares to decrease (from RMB12.40 on 3 August 2020 to RMB8.64 on the Pricing Benchmark Date) following its release.

After the publication of the Announcement on 14 April 2021, the closing price of the A Shares increased from RMB8.67 on date of the Announcement to RMB8.95 on the Latest Practicable Date, representing an increase of approximately 3.23% over the closing price on the date of the Announcement.

Notwithstanding the Issue Price was below the closing price of A Shares during the Historical Price Period, taking into account factors including (i) the Group's funding need for repayment of its short-term borrowings and maintaining of sufficient working capital; (ii) the Issue Price being determined in compliance with the New Decisions (as defined below); (iii) the Issue Price representing a premium of approximately 28.8% and 8.0% over the unaudited NAV per Share as at 31 March 2021 and the unaudited Adjusted NAV per Share as at 31 March 2021 respectively; and (iv) the Issue Price being above the average closing price of H Shares during the Historical Price Period, we are of the view that the Issue Price is acceptable so far as the Independent Shareholders are concerned.

(ii) Comparison of key terms of the Proposed A Shares Issue with comparable non-public A shares issuances by listed issuers

Pursuant to the decisions (the "**New Decisions**") announced by the CSRC on 14 February 2020 (the "**Effective Date**"), namely the decision on amending the "Administration Measures for the Issuance of Securities by Listed Companies" (《上市公司證券發行管理辦法》) (中國證券監督管理委員會令第163號) and the decision on amending the Implementation Rules (中國證監會公告[2020]11號), the minimum issue price of A shares under non-public issuance of A shares must be not less than 80% of the average trading price of the company's shares during the 20 trading days preceding the pricing benchmark date.

In the following table, we set out (i) the basis for determination of the issue price of A shares; (ii) the lock-up periods which are imposed on the relevant A shares; (iii) where applicable, the premium/(discount) of issue price over/to the average trading price over the 20 trading days preceding pricing benchmark date ("**20 Trading Days Premium/(Discount)**") of the Proposed A Shares Issues as compared to those involving non-public issuance of A shares for fund-raising purpose by listed issuers ("**Transaction Comparables**") which are dually listed on the Hong Kong Stock Exchange as well as a recognised stock exchange in the PRC (i.e. the SZSE or the Shanghai Stock Exchange) to their respective controlling shareholders (or a group of subscribers comprising the controlling shareholders and other investor(s)) over the period from the Effective Date up to the Latest Practicable Date; and (iv) where applicable, the premium/(discount) of issue price over/to the closing price as at pricing benchmark date ("**PBD Premium/(Discount)**") of the Proposed A Shares Issues as compared to the Transaction Comparables. We believe that a comparison of the said key terms of the Proposed A Shares Issue with the non-public issuance of A shares by these Transaction Comparables would be appropriate and meaningful for the reasons that they all relate to non-public issuance of A shares by listed companies dually listed on the Hong Kong Stock Exchange as well as a PRC recognised stock exchange to controlling shareholders, and all such transactions are required to comply with the requirements of applicable PRC laws, including the New Decisions. Based on such selection criteria, we have identified an exhaustive list of 10 Transaction Comparables as set out in the table below, which we believe is an adequate sample size for meaningful comparison and analysis.

	Company name	Announcement date	Basis for A-share issue price	Lock-up period (in months)	20 Trading Days Premium/(Discount), being the premium/(discount) of issue price over/to the average trading price over the 20 trading days preceding pricing benchmark date	PBD Premium/(Discount), being the premium/(discount) of issue price over/to the closing price as at pricing benchmark date
1	First Tractor Company Limited (38.HK) (601038.SH)	24 April 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	36	(20.0)%	(27.3)%
2	Dynagreen Environmental Protection Group Co., Ltd. (1330.HK) (601330.SH)	29 May 2020	The higher of (i) 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date; and (ii) the latest audited net asset value per share attributable to the shareholders of ordinary shares of the company before issuance of A shares	18	(19.6)%	(19.2)%
3	Tianjin Capital Environmental Protection Group Company Limited (1065.HK) (600874.SH)	13 July 2020, 30 March 2021 *(Note 1)*	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	36	(20.0)%	(24.9)%
4	Postal Savings Bank of China Co., Ltd. (1658.HK) (601658.SH)	30 November 2020	The higher of (i) 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date; and (ii) the latest audited net asset value per share attributable to the shareholders of ordinary shares of the company before issuance of A shares	60 *(Note 2)*	14.4% *(Note 3)*	6.1% *(Note 3)*

	Company name	Announcement date	Basis for A-share issue price	Lock-up period (in months)	20 Trading Days Premium/ (Discount), being the premium/ (discount) of issue price over/ to the average trading price over the 20 trading days preceding pricing benchmark date	PBD Premium/ (Discount), being the premium/ (discount) of issue price over/to the closing price as at pricing benchmark date
5	China Suntien Green Energy Corporation Limited (956.HK) (600956.SH)	21 December 2020	The higher of (i) 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date; and (ii) the latest audited net asset value per share attributable to the shareholders of ordinary shares of the company before issuance of A shares	18	N/A *(Note 4)*	N/A *(Note 4)*
6	Luoyang Glass Company Limited (1108.HK) (600876.SH)	31 December 2020	The higher of (i) 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date; and (ii) the latest audited net asset value per share attributable to the shareholders of ordinary shares of the company before issuance of A shares	36	N/A *(Note 4)*	N/A *(Note 4)*
7	COSCO Shipping Development Co., Ltd. (2866.HK) (601866.SH)	27 January 2021	The higher of (i) 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date; and (ii) the latest audited net asset value per share of A shares	36	N/A *(Note 4)*	N/A *(Note 4)*
8	China Eastern Airlines Corporation Limited (670.HK) (600115.SH)	2 February 2021	The higher of (i) 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date; and (ii) the latest audited net asset value per share attributable to the shareholders of ordinary shares of the company before issuance of A shares	36	(4.9)%	(7.9)%

	Company name	Announcement date	Basis for A-share issue price	Lock-up period (in months)	20 Trading Days Premium/ (Discount), being the premium/ (discount) of issue price over/ to the average trading price over the 20 trading days preceding pricing benchmark date	PBD Premium/ (Discount), being the premium/ (discount) of issue price over/to the closing price as at pricing benchmark date
9	China Suntien Green Energy Corporation Limited (956.HK) (600956.SH)	5 March 2021	The higher of (i) 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date; and (ii) the latest audited net asset value per share attributable to the shareholders of ordinary shares of the company before issuance of A shares	36	N/A (Note 4)	N/A (Note 4)
10	Shanghai Pharmaceuticals Holding Co., Ltd. (2607.HK) (601607.SH)	12 May 2021	The higher of (i) 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date; and (ii) the latest audited net asset value per share attributable to the shareholders of ordinary shares of the company before issuance of A shares	36	(20.0)%	(18.2)%
				Maximum	14.4%	6.1%
				Minimum	(20.0)%	(27.3)%
				Median	(19.8)%	(18.7)%
				Average	(11.7)%	(15.2)%
	The Company (719.HK) (000756.SZ)	14 April 2021	The higher of (i) 80% of the average trading price of the A Shares during the 20 trading days preceding the Pricing Benchmark Date; and (ii) than the unaudited NAV per Share at the end of the Company's most recent financial year prior to the Pricing Benchmark Date	36	(20.0)%	(20.3)%

Source: Hong Kong Stock Exchange (http://www.hkex.com.hk/)

Notes:

1. On 30 March 2021, the listed issuer of Transaction Comparable #3 announced that at the forty-seventh meeting of its board of directors held on 30 March 2021, its board of directors considered and approved the relevant resolutions in relation to the adjustments to the proposed non-public issuance of A shares. Information disclosed hereof refers to the announcement made by the listed issuer of Transaction Comparable #3 on 30 March 2021.

2. According to the circular of the listed issuer of Transaction Comparable #4 dated 4 December 2020, its lock-up period was determined in accordance with《中資商業銀行行政許可事項申請材料目錄及格式要求》(Catalogue and Requirements for the Formats of the Application Materials for the Administrative Licensing Items of Chinese-funded commercial banks*) which requires a lock-up period of 60 months commencing from the date of settlement for the proposed subscribers who will be interested in 5% or more equity interests of PRC commercial bank.

3. The issue price of Transaction Comparable #4 was based on the latest audited net asset value per share of the listed issuer of Transaction Comparable #4 prior to its pricing benchmark date as its latest audited net asset value per share was higher than its average trading price during the 20 trading days preceding the pricing benchmark date.

4. The issue price has not yet been determined up to the Latest Practicable Date.

As shown in the above table, the issue price of A shares of all of the Transaction Comparables comply with the requirements of the New Decisions (i.e. their issue price was not less than 80% of the average trading price of the A shares during the 20 trading days preceding the pricing benchmark date). Further, similar to the pricing mechanism for the Issuer Price in connection with the Proposed A Shares Issue, eight out of 10 Transaction Comparables included a further qualification that the issue price of A shares must be not lower than the net asset value per share as shown based on latest audited information (although we observed that such additional criteria had limited implications on the issue price of A shares in respect of Transaction Comparables the issue price of which has been determined as at the Latest Practicable Date, given that the minimum issue price per A share determined pursuant to the New Decisions was higher than the issue price per A share determined based on this additional criteria). On such basis, we believe that the pricing mechanism for the Issue Price is based on similar criteria used by, and is not less favourable than those adopted by, the Transaction Comparables.

In respect of non-public issuance of A shares of the Transaction Comparables in which their issue price has been determined up to the Latest Practicable Date (i.e. Transaction Comparable #1, #2, #3, #4, #8 and #10) ("**Transaction Comparables With Issue Price**"), we observed that majority of the issue price of Transaction Comparables were set at a discount to the average trading price of the A shares during the 20 trading days preceding the pricing benchmark date and four of which (i.e. Transaction Comparable #1, #2, #3 and #10) were set at a level of approximately 80% of the average trading price during the 20 trading days preceding the pricing benchmark date. Upon comparison, the 20 Trading Days Discount of the Issue Price of approximately 20.0% was within the range of the 20 Trading Days Premium/(Discount) of the Transaction Comparables With Issue Price (from a premium of approximately 14.4% to a discount of approximately 20.0%), close to the median of the 20 Trading Days Discount of the Transaction Comparables With Issue Price of approximately 19.8% and below the average of the 20 Trading Days Discount of the Transaction Comparables With Issue Price of approximately 11.7%; and (ii) the PBD Discount of the

Issue Price of approximately 20.3% was within the range of the PBD Premium/(Discount) of the Transaction Comparables With Issue Price (from a premium of approximately 6.1% to a discount of approximately 27.3%), close to the median of the PBD Discount of the Transaction Comparables With Issue Price of approximately 18.7% and below the average of the PBD Discount of the Transaction Comparables With Issue Price of approximately 15.2%. On the other hand, the issue price of Transaction Comparable #4 was based on its latest audited net asset value per share prior to its pricing benchmark date as its latest audited net asset value per share of approximately RMB5.55 was higher than its average trading price during the 20 trading days preceding the pricing benchmark date of approximately RMB4.85. Taking into account the above and that the Issue Price was set at a discount which in line with the majority of the Transaction Comparables With Issue Price, we consider that the basis in determining the Issue Price is not less favourable than those of the Transaction Comparables.

Except for the Transaction Comparable #4, the subscribers of all Transaction Comparables are subject to a lock-up period of 18 months to 36 months and six of them are subject to a lock-up period of 36 months. The lock-up period of the Proposed A Shares Issue, being 36 months, is within the range of that of the Transaction Comparables and the same as the majority of the Transaction Comparables. On such basis, we are of the view that the lock-up period of the Proposed A Shares Issue is not less favourable than those of the Transaction Comparables.

(iii) Comparison of the Issue Price with A shares of industry peers

In order to assess the fairness and reasonableness of the Issue Price, we have considered the price-to-earnings multiple (the "**P/E Ratio**") and the price-to-book multiple (the "**P/B Ratio**") implied by the Issue Price and by the P/E Ratio and the P/B Ratio of market comparable companies. We consider that the P/E Ratio and the P/B Ratio are appropriate parameters for evaluating the valuation of profit-generating and asset-based companies, where significant capital expenditure is required to operate a pharmaceutical related business.

We have identified two market comparable companies (the "**Industry Comparable(s)**") based on the following criteria: (i) dually listed on the Hong Kong Stock Exchange and SZSE or Shanghai Stock Exchange; (ii) principally engages in pharmaceutical related business with a focus on the development of chemical Active Pharmaceutical Ingredients (API), pharmaceutical preparations and chemical products; and (iii) are profit-making in their latest financial year. We believe that such selection criteria is reasonable as they are key characteristics which are possessed by the Company. The Industry Comparables set out below represent an exhaustive list of companies comparable to the Company based on the above criteria.

Company name (stock code)	Market capitalization *(Note 1)* *RMB' million*	Net profit *(Note 2)* *RMB' million*	Net asset value *(Note 3)* *RMB' million*	CAGR of net profit *(Note 4)* *%*	Net profit margin *%*	P/E Ratio *(Note 5)* *times*	P/B Ratio *(Note 6)* *times*	2019 P/E Ratio *(Note 7)* *times*	2019 P/B Ratio *(Note 8)* *times*
Livzon Pharmaceutical Group Inc. (1513.HK) (000513.SZ) ("**Livzon**")	39,423	1,715	12,519	25.9	20.3	23.0	3.1	30.3	3.5
Shenzhen Hepalink Pharmaceutical Group Co., Ltd. (9989.HK) (002399.SZ) ("**Shenzhen Hepalink**")	24,988	1,024	11,569	26.5	19.2	24.4	2.2	23.6	3.4
					Maximum	24.4	3.1	30.3	3.5
					Minimum	23.0	2.2	23.6	3.4
					Median	23.7	2.7	26.9	3.5
					Average	23.7	2.7	26.9	3.5
The Company (719.HK) (000756.SZ)	5,408	325	3,359	12.8	5.8	16.7	1.3 *(Note 10)*	18.0	1.8
The Issue Price	4,323 *(Note 9)*	325	3,359	12.8	5.8	13.3	1.1 *(Note 10)*	14.4	1.5

Source: Shanghai Stock Exchange (http://www.sse.com.cn/) and SZSE (http://www.szse.cn/) and Hong Kong Stock Exchange (http://www.hkex.com.hk/)

Notes:

1. Market capitalization is derived from multiplying the total issued shares of the company (including both A shares and H shares) by the respective closing price of A shares quoted on the Shanghai Stock Exchange and SZSE (as applicable) as at the Pricing Benchmark Date.

2. Net profit refers to net profit attributable to the owners of the company reported in the respective companies' latest published annual reports.

3. Net asset value refers to net assets attributable to the owner of the company reported in the respective companies' latest published financial information.

4. CAGR of net profit refers to 3-year compound annual growth rate ("**CAGR**") of net profit attributable to shareholder of the company from FY2018 to FY2020.

5. P/E ratio is calculated based on the respective market capitalization as at the Pricing Benchmark Date divided by their latest respective net profit attributable to the owners of the company.

6. P/B Ratio is calculated based on the respective market capitalization as at the Pricing Benchmark Date divided by their respective latest net asset value attributable to the owners of the company attributable to the owner of the company.

7. 2019 P/E ratio ("**2019 P/E ratio**") is calculated based on the average closing price of A shares one year prior and included the Pricing Benchmark Date (i.e. 16 April 2020 to 15 April 2021) multiplied total issued shares of the company as at the Pricing Benchmark Date divided by their net profit attributable to the owners of the company for the year ended 31 December 2019.

8. 2019 P/B ratio ("**2019 P/B ratio**") is calculated based on the average closing price of A shares one year prior and included the Pricing Benchmark Date (i.e. 16 April 2020 to 15 April 2021) multiplied total issued shares of the company as at the Pricing Benchmark Date divided by their net assets value attributable to owners of the company as at 31 December 2019.

9. The implied market capitalization of the Company is calculated based on Issue Price, being RMB6.89 per Share, and the total number of issued A Shares and H Shares of the Company.

10. The P/B Ratio of the Company is calculated based on the unaudited Adjusted NAV of the Company as at 31 March 2021.

Upon comparison, we noted that the P/E Ratio of the Industry Comparables ranged from approximately 23.0 times to 24.4 times and its median and average are both approximately 23.7 times. The P/E Ratio of the Company of approximately 16.7 times falls outside the range of the P/E Ratio of the Industry Comparables. Meanwhile, the P/B Ratio of the Industry Comparables ranged from approximately 2.2 times to 3.1 times and its median and average are both approximately 2.7 times. The P/B Ratio of the Company of approximately 1.3 times falls outside the range of the P/B Ratio of the Industry Comparables.

As set out in the above table, we noted that Livzon and Shenzhen Hepalink recorded CAGR of net profit by approximately 25.9% and 26.5% during the period from FY2018 to FY2020, whereas the Company recorded CAGR of net profit by approximately 12.8% during the corresponding period. Moreover, we noted that the net profit margin of Livzon and Shenzhen Hepalink for FY2020 were approximately 20.3% and 19.2% respectively, whereas the net profit margin of the Company for FY2020 was approximately 5.8%. In addition, we have conducted research on the Industry Comparables. In particular, Livzon recorded revenue of over RMB10 billion in FY2020 according to its annual report for FY2020 and owned 458 patents registered up to 31 July 2018 according to its official website. For Shenzhen Hepalink, it was the largest China-based and third largest global manufacturer and marketer of enoxaparin sodium injection, with a global market share of 6.5%, and the second largest supplier in the enoxaparin injection market with a market share of 10.9% in 2019, according to its prospectus dated on 24 June 2020. The higher growth rate of net profit, the higher net profit margin and the sophisticated background in the pharmaceutical industry of the Industry Comparables are the factors to support premium on their market valuation.

Furthermore, we noted that the 2019 P/E Ratio and 2019 P/B Ratio of the Company, being calculated based on average historical closing price and financial figures for FY2019, are also lower than those of the Industry Comparables, reflecting that the Company has been consistently trading at lower P/E Ratio and P/B Ratio than the Industry Comparables.

Taking into account the above noticeable differences on growth perspective and background between the Industry Comparables and the Company, we consider that the relatively lower P/E Ratio and P/B Ratio of the Company to be justified. Besides, with reference to our analysis of the Transaction Comparables as discussed in the sub-section headed "(ii) Comparison of key terms of the Proposed A Shares Issue with comparable non-public A shares issuances by listed issuers" in this letter, the majority of the issue price of non-public A shares under the Transaction Comparables were determined based on a similar pricing mechanism to that used for determining the Issue Price. Hence, we consider that the P/E Ratio and P/B Ratio implied by the Issue Price are acceptable.

Based on above factors and reasons set out in this letter and, in particular, the fact that (i) the Proposed A Shares Issue will optimise the Company's capital structure and reduce its financial risks; (ii) the Proposed A Shares Issue will improve the Company's liquidity, ease its funding pressure and reduce its amount of short-term liabilities; (iii) the Issue Price represents a premium of approximately 28.8% and 8.0% over the unaudited NAV per Share as at 31 March 2021 and the unaudited Adjusted NAV per Share as at 31 March 2021 respectively; (iv) the determination of the Issue Price is similar to the majority of the issue price of Transaction Comparables of which the issue prices were set at a level of approximately 80% of the average trading price during the 20 trading days preceding the pricing benchmark date; and (v) the P/E Ratio and P/B Ratio implied by the Issue Price to be justified for the reasons set out above, we are of the view that the Issue Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. Financial effects of the Proposed A Shares Issue on the Group

(i) Cashflow

According to the 1Q2021 Quarterly Report, the monetary funds of the Group amounted to approximately RMB914 million as at 31 March 2021. Upon Completion and save for the relevant expenses related to the Proposed A Shares Issue, the cash position of the Group will be improved as the Proposed A Shares Issue will supplement the working capital of the Group by approximately RMB250 million. Accordingly, the cash position, net current assets and current ratio of the Company are expected to be improved upon Completion.

(ii) Earnings

The earnings per Share is expected to decrease as the number of issued Shares will increase upon Completion. However, immediate financial burden of the Group will also be alleviated as certain borrowings of the Company will be repaid. Nevertheless, Shareholders are reminded that the actual impact of the Proposed A Shares Issue on the Company's earnings will also be dependent on the actual financial performance of the Group in the long run.

(iii) Net Asset Value

According to the 1Q2021 Quarterly Report, the unaudited NAV of the Group as at 31 March 2021 was approximately RMB3,359 million. The unaudited Adjusted NAV of the Group as at 31 March 2021 based on the valuation of the properties of the Group is approximately RMB4,003 million (for details, please refer to the section headed "Issue Price" in this letter). Upon Completion and save for the relevant expenses related to the Proposed A Shares Issue, the total assets of the Group will increase, and the liabilities of the Group will decrease with the repayment of debts. Accordingly, there will be a positive impact on the unaudited NAV and unaudited Adjusted NAV of the Group. Furthermore, the NAV per Share will also be enhanced as the Issue Price of RMB6.89 is higher than the unaudited NAV per Share of approximately RMB5.35 as at 31 March 2021 and the unaudited Adjusted NAV per Share of approximately RMB6.38 as at 31 March 2021.

(iv) Gearing

The gearing ratio of the Group as at 31 March 2021 was approximately 46.1%, as calculated by dividing total borrowings by total equity of the Group according to the 1Q2021 Quarterly Report. Upon Completion, the total liabilities of the Group will decrease, while the total assets of the Group will increase. Thus, the gearing level of the Group is expected to decrease upon Completion.

Based on the above, the Proposed A Shares Issue would have an overall positive effect on the future earnings and the financial position of the Group in terms of cashflow, net asset value, and gearing upon Completion. On such basis, we are of the view that the Proposed A Shares Issue is in the interests of the Company and the Shareholders as a whole.

6. Potential dilution effect on the shareholding of the Company

As set out in the table showing the shareholdings changes of the Company under the section headed "Effect of the Proposed A Shares Issue on the Shareholding Structure of the Company" as contained in the Letter from the Board, the shareholding of the existing public Shareholders (other than HHC and parties acting in concert with it) as at the Latest Practicable Date was approximately 63.37%, comprising the A Shares and the H Shares held by existing public Shareholders.

The number of shares to be issued under the Proposed A Shares Issue will be 36,284,470 A Shares, represents (i) approximately 8.39% of the existing number of A Shares in issue as at the Latest Practicable Date, and approximately 5.78% of the existing total number of Shares in issue as at the Latest Practicable Date; and (ii) approximately 7.74% of the number of A Shares in issue and approximately 5.47% of the total number of Shares in issue, in each case as enlarged by the number of A Shares to be issued upon Completion.

HHC's aggregate shareholding in the Company is expected to increase from approximately 36.63% to (i) approximately 40.10% immediately after the Completion; and (ii) approximately 39.46% immediately after the Completion and exercise of all outstanding Share Options. Assuming there are no other changes to the total issued share capital of the Company other than the Proposed A Shares Issue from the Latest Practicable Date to the date of Completion, the shareholdings of the existing public Shareholders (other than HHC and parties acting in concert with it) will be diluted from approximately 63.37% to approximately 59.9%.

Having considered the reasons stated in details in the section headed "Background of and reasons for the Proposed A Shares Issue" above in this letter, in particular, the following:

(i) the Proposed A Shares Issue will enhance the Company's liquidity cushion and replenishes the working capital of the Group for its operation;

(ii) the Proposed A Shares Issue will reduce the Company's borrowings and interest expenses, and should eventually improve its the overall gearing position and profitability of the Group; and

(iii) the terms of the Proposed A Shares Issue are fair and reasonable so far as the Independent Shareholders are concerned,

we are of the opinion that the possible shareholding dilution to the Independent Shareholders is acceptable so far as the Independent Shareholders are concerned.

7. The Whitewash Waiver

As at the Latest Practicable Date, HHC holds 209,007,260 A Shares (itself and through Hualu Investment) and 20,827,800 H Shares, (itself and through Well Bring) representing approximately 36.63% of the total issued share capital of the Company. Upon Completion, HHC's aggregate shareholding in the Company is expected to increase from approximately 36.63% to approximately 40.10% (on a fully diluted basis). In the absence of an applicable waiver, the Proposed A Shares Issue will give rise to an obligation on the part of HHC to make a mandatory offer for all the Shares in issue other than those already owned or agreed to be acquired by it under Rule 26.1 of the Takeovers Code.

HHC has applied to the Executive for the Whitewash Waiver from compliance with Rule 26.1 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, is expected to be subject to, among other things, the Whitewash Waiver being approved by at least 75% of the independent votes that are cast either in person or by proxy at the AGM, and the Proposed A Shares Issue and the A Shares Subscription Agreement being approved by more than 50% of the independent votes that are cast either in person or by proxy at the AGM as required under the Takeovers Code. Further, under the Articles of Association, the Proposed A Shares Issue and the A Shares Subscription Agreement will have to be approved by at least two-thirds of the votes cast on a poll by the Independent Shareholders at each of the AGM, the A Shares Class Meeting and the H Shares Class Meeting. The Proposed A Shares Issue will not proceed if the Whitewash Waiver is not granted by the Executive or the Proposed A Shares Issue is not approved by the Independent Shareholders at the AGM and the Class Meetings, or if the Whitewash Waiver is not approved by at least 75% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the AGM.

Given the possible benefits of the Proposed A Shares mentioned in the section headed "3. Background of and Reasons for the Proposed A Shares Issue" above in this letter and having considered our view described above that the terms of the Proposed A Shares Issue are fair and reasonable so far as the Independent Shareholders are concerned to the reasons set out herein, we are of the opinion that the approval for the Whitewash Waiver, which is a prerequisite of the Proposed A Shares Issue, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Proposed A Shares Issue.

RECOMMENDATIONS

Having considered the above principal factors and reasons, we consider that the Proposed A Shares Issue and the Whitewash Waiver, though not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole and the terms of the Proposed A Shares Issue are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

We therefore advise the Code Independent Board Committee and the Listing Rule Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the AGM and the Class Meetings to approve the Proposed A Shares Issue and the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung	**Louis Chan**
Managing Director	*Director*

Note:

Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

This proposal was originally prepared in Chinese and the English version is for reference only. If there is any discrepancy between the English and Chinese version, the Chinese version shall prevail.

Stock Code: 000756 **Abbreviation of Stock: Xinhua Pharm A** **Announcement: 2021–21**

Shandong Xinhua Pharmaceutical Company Limited

2021 PROPOSAL FOR NON-PUBLIC ISSUANCE OF A SHARES

April 2021

COMPANY'S STATEMENT

I. The Company and all members of the Board of Directors guarantee that the contents of the proposal are true, accurate and complete without false records, misleading statements or major omissions.

II. Upon completion of the Non-Public Issuance of Shares, any change in the operation and revenue shall be borne by the Company at its own risk, and any investment risk arising from the Non-Public Issuance of Shares shall be assumed by the investors.

III. The proposal is the description of the Non-Public Issuance of Shares by the Board of Directors of the Company, and any statement to the contrary shall be misrepresentation.

IV. Investors should consult their own stockbrokers, lawyers, professional accountants or other professional advisers if in doubt.

V. The matters mentioned in the proposal do not represent the substantive judgment, confirmation, approval or verification of the approving authorities on the matters relating to the Non-Public Issuance of Shares. The effectiveness and completion of the matters related to the Non-Public Issuance of Shares mentioned in the proposal are still subject to the approval and verification of relevant approving authorities.

SPECIAL REMINDERS

I. The matters relating to the Non-Public Issuance have been reviewed and approved by the 2021 second extraordinary meeting of the tenth session of the Board of Directors of the Company. The Non-Public Issuance shall still be subject to the approval of the state-owned assets administration institution, the granting of the whitewash waiver from the Securities and Futures Commission of Hong Kong, the review and consideration by shareholders in general meeting and class meetings as well as the approval and verification by the CSRC.

II. The target subscriber of the Non-Public Issuance shall be Hualu Investment, which is the wholly owned subsidiary of the Company's Controlling Shareholder, Hualu Holdings Co., Ltd.. Hualu Investment has signed the conditional share subscription agreement with the Company. The Non-Public Issuance constitutes a connected transaction. The affiliated directors shall abstain from voting when voting on relevant proposals of the Non-Public Issuance by the Board of Directors. The affiliated shareholders shall abstain from voting when the relevant proposals of the Non-Public Issuance are submitted to the general meeting of shareholders for approval.

III. The number of shares under the Non-Public Issuance shall not exceed 36,284,470 (inclusive) the maximum number of shares to be issued shall not exceed 30% of total share capital of the Company before the Non-Public Issuance. The final issue number shall be determined by negotiations by the Board of Directors of the Company in accordance with the authorization of the general meeting and the sponsor institution (the lead underwriter). If there are any ex-right and ex-dividend issues such as, a dividend distribution, an issuance of bonus shares or a conversion of share capital during the period from the pricing benchmark date to the issuance date, the number of shares for the Non-Public Issuance shall be adjusted accordingly.

If the total number of shares of the Non-Public Issuance and the raised proceeds are to be adjusted due to changes in regulatory policies or the requirements of the Issuance approval documents, the number of shares in issue of the Company and the raised proceeds will be adjusted accordingly.

IV. The issuance price for the Non-Public Issuance shall be 6.89 yuan per share.

The pricing benchmark date of the Non-Public Issuance shall be the date of the announcement of the second extraordinary resolution of the tenth session of the Board of Directors in 2021 (i.e. April 15, 2021). The issuance price of shares shall not be lower than 80% of the average trading price of shares during the 20 trading days prior to the pricing benchmark date (the average trading price of shares during the 20 trading days prior to the pricing benchmark date equals the total trading amount of shares of the Company traded during the 20 trading days prior to the pricing benchmark date, divided by the total trading volume of shares of the Company during the 20 trading days prior to the pricing benchmark date), or the higher (rounded to take two decimal places) of the unaudited amount of net assets per share attributable to the holders of ordinary shares of the parent company in the most recent year (prior to the pricing benchmark date).

If there are ex-right and ex-dividend issues such as a dividend distribution, an issuance of bonus shares or a conversion of capital reserve into share capital on the A shares during the period from the pricing benchmark date to the issuance date, the issuance price of the Non-Public Issuance will be adjusted accordingly.

V. The total raised proceeds for the Non-Public Issuance shall not exceed RMB250 million (inclusive), and all of the net proceeds after deducting issue expenditure will be used to repay the interest-bearing liability and supplement the working capital of the Company. Hereinto, the amount of the proceeds used to repay the interest-bearing liability shall not exceed RMB140 million, and the rest of the proceeds shall be used for supplementing the working capital of the Company.

VI. No shares under the Non-Public Issuance subscribed for by Hualu Investment shall be transferrable within 36 months from closing of the Issuance. After the lock-up period, it will be implemented in accordance with the relevant requirements of the CSRC and the Shenzhen Stock Exchange.

VII. For details of the profit distribution policies, cash dividends for the recent three years and shareholders' return plan for the next three years of the Company, please refer to "Section VI Profits Distribution Policies and Dividends Distribution of the Company" of the proposal.

VIII. The Non-Public Issuance of Shares will not result in change in the controlling shareholder and actual controller of the Company. The Non-Public Issuance of shares will not cause the shareholding distribution of the Company to fail to meet the listing requirements.

IX. For the details of whether the Issuance will dilute the immediate returns, please refer to "Section VII The Risk for Dilution of Immediate Returns and Measures Taken" of the proposal.

And in the meantime, the Company especially reminds investors that in the process of analysing the dilution impact of the Issuance on the immediate returns, the assumption made in relation to the net profit is not a profit forecast of the Company, and the remedial measures to cope with the dilution of the immediate returns are not a guarantee of the future profit of the Company.

X. The validity of this proposal of the Non-Public Issuance of Shares shall be 12 months from the date of the review and approval by the general meeting of shareholders.

XI. The Board of Directors especially reminds investors to carefully read the relevant contents "Section V: VI. Risk Factors concerning the Issuance" in the proposal and pay attention to investment risks.

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DEFINITIONS

In this proposal, the following terms shall have the following specific meaning unless otherwise specified:

Abbreviation	Definition
this proposal	2021 Proposal for Non-Public Issuance of A Shares of Shandong Xinhua Pharmaceutical Company Limited
Xinhua Pharmaceutical, Issuer, Listed Company, The Company, Company	Shandong Xinhua Pharmaceutical Company Limited
Hualu Holdings, Controlling Shareholder	Hualu Holdings Co. Ltd.
Hualu Investment, Target subscriber	Hualu Investment Development Co. Ltd.
The Non-Public Issuance of Shares, The Non-Public Issuance, The Issuance	2021 Non-Public Issuance of A Shares of Shandong Xinhua Pharmaceutical Company Limited
Well Bring	Well Bring Ltd., Hong Kong
Board, Board of Directors	Board of Directors of Shandong Xinhua Pharmaceutical Company Limited
general meeting of shareholders	General meeting of shareholders of Shandong Xinhua Pharmaceutical Company Limited

Articles of Association	Articles of association of Shandong Xinhua Pharmaceutical Company Limited
National Health Commission	National Health Commission of the People's Republic of China
Shandong Provincial SASAC	Shandong Provincial State-owned Assets Supervision and Administration Commission
CSRC	China Securities Regulatory Commission
Company Law	Company Law of the People's Republic of China
Securities Law	Securities Law of the People's Republic of China
CMO	Contract Manufacture Organization, a contract processing outsourcing organisation. It is mainly commissioned by pharmaceutical companies to provide process development, formulation development, clinical trial medication, chemical or bisynthetic raw material production, intermediate manufacturing, preparation production (such as powder, injection) required for product production and packaging
CRO	Contract Research Organization, a contract customised research and development institution, which mainly provides preclinical drug discovery, preclinical research and clinical trials services to pharmaceutical and biotechnology companies
yuan, ten thousand yuan, one hundred million yuan	RMB Yuan, RMB ten thousand Yuan, RMB one hundred million Yuan
recent three years and the first period, reporting period	2018, 2019, 2020 and January 2021 to March 2021

SECTION I SUMMARY OF THE NON-PUBLIC ISSUANCE OF SHARES

I. Basic information of the Issuer

Company Name	Shandong Xinhua Pharmaceutical Company Limited
English Name	Shandong Xinhua Pharmaceutical Company Limited
Listing exchange of its shares	Shenzhen Stock Exchange, The Stock Exchange of Hong Kong Limited
Abbreviation of Stock	Xinhua Pharm, Shandong Xinhua Pharm
Stock Code	000756.SZ, HK.00719
Legal representative	Zhang Daiming
Registered capital	RMB 627,367,447.00
Registered address	Chemical Industry Area of Zibo Hi-tech Industry Development Zone, Zibo City, Shandong Province
Office address	No. 1 Lutai Ave., Hi-tech Industry Development Zone, Zibo City, Shandong Province
Unified Social Credit Code	913703001641037 27C
Place of Registration	Zibo Municipal Administration of Industry and Commerce of Shandong Province
Postal code	255086
Tel.	86-533-2166666
Fax	86-533-2287508
Company website	http://www.xhzy.com
E-mail	xhzy@xhzy.com

Business Scope	Production, wholesale, retail of western medicine, chemical raw materials, food additives, health food, solid drinks, veterinary drugs, fish oil, pharmaceutical equipment, medical testing instruments and meters; technology transfer, service, technical consultation and technical training for self-developed projects; wholesale, retail of Chinese medicinal materials, Chinese medicine pieces, medical device (class I, II, III), contact lens and care solution, test paper (reagent), health food, maternal/baby products, dairy products (including infant formula), cosmetics, washing products, prepackaged food, bulk food, daily necessities, primary agricultural products, seafood, adult family planning products; sales of chemical substances, chemical products, chemical reagents, pharmaceutical intermediates (the above three items do not contain dangerous and precursor chemicals); imports and exports; warehouse service (no dangerous goods); Internet information consultation and service; e-commerce agency operation (for items requiring approval according to law, business activities can only be carried out after approval by relevant departments).

II. Background and purpose of the Non-Public Issuance of the Listed Company

(I) Background of the Non-Public Issuance

1. The State strongly supports the development of the pharmaceutical industry, and the market size of the industry continues to grow

The pharmaceutical industry is a national strategic industry and an important field related to the national economy and people's livelihood. The guideline for development planning of pharmaceutical industry by the Ministry of Industry and Information Technology states that the pharmaceutical industry is an important industry related to the national economy and people's livelihood, a key field for cultivating and developing strategic emerging industries, and an important guarantee for promoting the construction of a healthy China. *The Pharmaceutical Administration Law of the PRC (Revision), Opinions on the implementation of the Healthy China* and other policies promulgated guide the direction of industry development, encourage the research and innovation of pharmaceutical enterprises, and has brought opportunities to the development of the pharmaceutical industry. The proportion of health expenditure in GDP in China rose from 6.05% in 2015 to 6.64% in 2019, which also reflects the continuous improvement of national support for medical and health care.

With the rapid development of the national economy, the significant improvement of residents' living standards, the continuous improvement of the medical and health system, and the acceleration of the aging population, people increasingly pay attention to health problems, and the pharmaceutical industry in China has also achieved rapid development. According to the Statistical Communique on the Development of China's Health Industry released by the National Health Commission, China's total health expenditure is expected to reach 6.52 trillion yuan in 2019, an increase of 59.02% from 4.10 trillion yuan in 2015, with a compound annual growth rate of 14.76%. The market size of the pharmaceutical industry has maintained steady growth.

2. *The core strategy of the Company has been steadily promoted, and the quality of operations has continuously improved*

In 2020, the Company actively responded to the impact of COVID-19, the intensification of market competition and many factors, vigorously promoted the strategy of large-scale preparations strategy, internationalisation strategy, large-scale research and development strategy, and continued to improve the quality of operations.

The pharmaceutical preparations business will continue to promote the strategy of large-scale preparations strategy, focusing on the development of several major varieties such as Glimepiride Tablets, Rabeprazole Sodium Enteric-coated Tablets, etc., and increase in production and marketing, with rapid sales volume growth. In 2020, the sales volume of the Company's ten strategic of preparations increased by 56.27% year-on-year, among which the sales volume of the bid-winning categories of Glimepiride Tablets, Rabeprazole Sodium Enteric-coated Tablets and Cefradine capsules increased by 68.2%, 52% and 145.3%, respectively.

The internationalisation strategy has accelerated. In 2020, the Company's export earned foreign exchange reached 294 million US dollars, with a year-on-year growth 12.96%. The International Cooperation Center of Modern Medicine which has a production capacity of 20 billion tablets passed the inspection by the US FDA with zero defects in the first period; Xinhua Perrigo preparation project with a production capacity of 5 billion tablets officially launched commercial production, achieved exports of 300 million tablets that year; and oseltamivir capsules, EPA soft capsules and other projects with the international cooperation officially launched. Through CRO and CMO, the Company has realised the transformation of its long-term global development strategy.

In the recent three years, the Company's research and development expenditure was 186,975,800 yuan, 235,401,000 yuan and 298,347,300 yuan, respectively. With the continuous increase in research and development investment, the company's research and development capacity has rapidly improved. In 2020, the Company set up the Clinical and Biomedical Research Institute of Xinhua Pharma (Central South), Xinhua Pharma (Jinan) Joint Research Institute and the Joint Research Center of Xidan International Medicine of Xinhua Pharma (Guangdong). The consistency evaluation has also entered the harvest period. In 2020, a total of 11 products and 16 specifications have passed the consistency evaluation, and the core competitiveness of the Company continues to improve.

(II) The Purpose of the Non-Public Issuance

1. Enhancing the capital strength and guaranteeing the capital need for the Company's development

In 2018, 2019 and 2020, the operating revenue of the Company was 5.245 billion yuan, 5.606 billion yuan and 6.06 billion yuan respectively, with a compound annual growth rate of 9.76% for the most recent three years. With the continuous expansion of the Company's business scale, the Company's demand for working capital will continue to grow.

The Company belongs to the pharmaceutical manufacturing industry, and its business involves chemical raw materials, preparations, pharmaceutical intermediates and other fields. It has high expectations on production, circulation and management. The Company has a continuous demand for purchase, maintenance and reconstruction of fixed assets and projects under construction, and incurs large expenditure each year. The industry that the Company operates in is a technology-intensive industry. In order to maintain its competitive edge and sustainable development capabilities, the Company needs to continue to increase investment in research and development and technology improvement; in addition, in order to further expand and optimise the Company's distribution in CRO, CMO and other business areas, the Company will also increase its research and development expenditure in the future. With the steady development of the business and increasing working capital requirements, the raising of funds to supplement the working capital will be conducive to the Company's resources integration, and accelerate the Company's development strategy, strengthen the foundation of sustainable development, lay a foundation for the healthy, stable and sustainable development of the Company and finally maximise shareholders' interests.

2. *Optimising the asset structure and improve the ability to resist risks*

As of March 31, 2021, the Company's combined gearing ratio was 51.43%, far higher than the average level of listed companies in the same industry. The ability to expand the size of the Company's business is limited to the Company's overall capital and debt position to some extent. On the other hand, under the changes in the external environment such as COVID-19 and international trade friction, it has a great effect and impact on various industries, the pharmaceutical industry specifically, which imposes higher requirements for the robustness of its capital structure, the ability of business risk resistance and operational flexibility.

Raising proceeds through the Non-Public Issuance will increase the capital of the Company, reduce the asset-liability ratio of the Company, supplement the working capital, optimise the capital structure of the Company, further improve the financial position, reduce the financial risks and enhance the ability to resist risks.

III. Target subscriber and its relations with the Company

The target subscriber of the Non-Public Issuance is Hualu Investment, which is the wholly owned subsidiary of Company's Controlling Shareholder, Hualu Holdings. The target subscriber will subscribe for all shares under the Non-Public Issuance in cash.

Up to the announcement of the proposal, Hualu Holdings directly holds 204,864,092 shares, accounting for 32.65% of the total share capital, and is the Controlling Shareholder of the Company. Hualu Holdings and its subsidiaries hold 229,835,060 shares in the Company in aggregate, which accounts for 36.63% of the total share capital. Hualu Investment, the target subscriber of the Non-Public Issuance directly holds 4,143,168 shares, accounting for 0.66% of the total share capital of the Company.

The target subscriber of the Non-Public Issuance is the Company's connected party, so the Non-Public Issuance constitutes a connected transaction. The target subscriber complies with the requirements of laws and regulations, and for the basic information of the target subscriber, please refer to "Section II Basic information of the target subscriber" of the proposal.

IV. Summary of the Non-Public Issuance plan

1. Class and par value of the shares to be issued

The shares under the Non-Public Issuance are domestically-listed and RMB denominated ordinary shares (A shares) with a par value of RMB1.00 per share.

2. Method and timing of the Issuance

The shares from the Non-Public Issuance will all be issued to a specific target through the Non-Public Issuance, which will be issued during the validity period of the approval from the CSRC.

3. Target subscriber and subscription method

The target subscriber of the Non-Public Issuance shall be Hualu Investment, which is the wholly owned subsidiary of Controlling Shareholder of the Company, Hualu Holdings Co, Ltd.. The target subscriber will subscribe for all shares under the Non-Public Issuance in cash.

4. Pricing principle and issuance price

The issuance price for the Non-Public Issuance shall be 6.89 yuan per share.

The pricing benchmark date of the Non-Public Issuance shall be the date of the announcement of the second extraordinary resolution of the tenth session of the Board of Directors in 2021 (i.e. April 15, 2021). The issuance price of shares shall not be lower than (i) 80% of the average trading price of shares during the 20 trading days prior to the pricing benchmark date (the average trading price of shares during the 20 trading days prior to the pricing benchmark date equals the total trading amount of shares traded during the 20 trading days prior to the pricing benchmark date, divided by the total trading volume of shares during the 20 trading days prior to the pricing benchmark date), or (ii) the higher (rounded to take two decimal places) of the unaudited amount of net assets per share attributable to the holders of ordinary shares of the parent company in the most recent year (prior to the pricing benchmark date).

If any ex-right or ex-dividend event (such as, a dividend distribution, an issue of bonus shares or a conversion of capital reserves into share capital) occurs in respect of the A shares of the Company during the period from the pricing benchmark date to the issue date of the Non-Public Issuance, the issuance price shall be adjusted accordingly as follows:

Distribution of cash dividends: P1=P0-D

Bonus shares or convertion into share capital: P1=P0/(1+N)

Combination of both: P1=(P0-D)/(1+N)

Where: P0 denotes the issuance price before adjustment; D denotes the cash dividend per share; N denotes the number of shares distributed as bonus shares or converted into share capital per share; P1 denotes the issuance price after adjustment.

5. Number of shares to be issued

The number of shares in issue under the Non-Public Issuance shall not exceed 36,284,470 (inclusive), the number of shares in issue shall not exceed 30% of total share capital of the Company before the Non-Public Issuance, and the number of shares under the Non-Public Issuance shall be subject to the final approval of the CSRC. The final issue number shall be determined by the negotiations by the sponsor and lead underwriter in accordance with the authorisation of general meeting of shareholders, the relevant regulations of the CSRC.

Based on the calculation in accordance with the proposed subscription amount of the target subscriber and the price of the Non-Public Issuance, the proposed subscription amount and subscription number of shares of the target subscriber are as follows:

No.	Target subscriber	Proposed subscription shares	Proposed subscription amount *(ten thousand yuan)*
1	Hualu Investment	36,284,470	25,000
Total		**36,284,470**	**25,000**

Note: Subscription number=subscription amount/issuance price. If the subscription number calculated according to the formula is insufficient for the integral share, the number of shares shall be rounded down.

If any ex-right or ex-dividend event such as cash dividends, bonus shares and conversion of capital reserves into share capital, share placing or for any other reason, changes in the total share capital of the Company prior to the issue of the Shares or adjustments to the issue price, otherwise occurs during the period from the pricing benchmark date of A shares to the date of the Non-Public Issuance, the limit of number of shares under the Non-Public Issuance and the proposed subscription number of shares shall be adjusted accordingly.

If the total number of shares under the Non-Public Issuance changes due to the laws and regulations or regulatory policies or decreases according to the requirements of the Issuance approval documents, the Board or its authorised person shall make adjustments on the subscription amount and the number of shares of the target subscriber on the premise of complying with the authorisation of the general meeting of shareholders on the basis of the laws and administrative regulations and related requirements of the CSRC.

6. *Lock-up period*

None of the shares subscribed by Hualu Investment under the Non-Public Issuance shall be transferred within 36 months from the completion of the Issuance. Upon the completion of the Non- Public Issuance, he shares derived from the subscription of the underlying shares by Hualu Investment under the Non-Public Issuance due to the distribution of bonus shares and conversion of capital reserves into share capital shall also comply with the above lockup arrangements. Upon the expiration of the lock-up period, it shall be implemented in compliance with related requirements of the CSRC and the Shenzhen Stock Exchange.

7. *Use of proceeds*

The total raised proceeds for the Non-Public Issuance shall not exceed RMB250 million (inclusive), and all of the proceeds after deducting issue expenditure will be used to repay the interest-bearing liability and supplement the working capital of the Company. Hereinto, the interest-bearing liability shall not exceed RMB140 million, and the rest of the proceeds shall be used for supplementing the working capital of the Company.

8. *Arrangement for retained profits before the Non-Public Issuance of Shares*

After the completion of the Non-Public Issuance of Shares, both Hualu Investment new and old shareholders of the Company shall be jointly entitled to the retained but undistributed profits before the Non-Public Issuance of A Shares in accordance with the shareholding proportion after the Issuance.

9. *Listing location*

The Non-Public Issuance of Shares will be listed and traded on the Shenzhen Stock Exchange.

10. *Validity period of resolution regarding the Non-Public Issuance of A Shares*

The resolution regarding the Non-Public Issuance of Shares shall be valid for 12 months from the date on which the resolution is considered and approved by the general meeting of shareholders.

V. Use of proceeds under the Non-Public Issuance of A Shares

The total raised proceeds for the Non-Public Issuance shall not exceed RMB250 million (inclusive), and all of the proceeds after deducting issue expenditure will be used to repay the interest-bearing liability and supplement the working capital of the Company. Hereinto, the amount of the proceeds used to repay the interest-bearing liability shall not exceed RMB140 million, and the rest of the proceeds shall be used for supplementing the working capital of the Company.

In case of any discrepancy between the timing of the proceeds raised by the Issuance and the actual repayment of the corresponding bank loans and other interest-bearing liabilities, the Company will repay with its own funds first and replace the funds upon the proceeds from the Issuance.

Within the scope of the permission under relevant laws and regulations and authorisation of the resolutions of the general meeting of shareholders, the Board has the right to adjust or determine the specific arrangements on the investment projects for raising proceeds and the required amounts.

VI. Whether the Issuance will constitute a connected transaction

The target subscriber of the Non-Public Issuance is Hualu Investment, which is the wholly owned subsidiary of the Company's Controlling Shareholder Hualu Holdings. Thus, the Issuance constitutes a connected transaction with the Company.

The independent directors of the Company have expressed prior approval opinions and independent opinions in connection with the Non-Public Insurance and the transactions matters. The affiliated directors shall abstain from voting when reviewing relevant proposals of the Non-Public Issuance by the Board, and the non-affiliated directors have the voting rights. The affiliated shareholders shall also abstain from voting when the relevant proposals are submitted to the general meeting of shareholders for review and consideration.

VII. Whether the Issuance will cause a change in the right of control of the Company

As at the announcement of the proposal, Hualu Holdings directly holds 204,864,092 shares, accounting for 32.65% of the total share capital, and is the Controlling Shareholder of the Company. Hualu Investment and Well Bring, subsidiaries of Hualu Holdings, hold 4,143,168 shares and 20,827,800 shares in the Company respectively, which accounts for 0.66% and 3.32% of the total share capital of the Company respectively. Shandong Provincial People's Government State-owned Assets Supervision and Administration Commission is the actual controller of the Company. For the Non-Public Issuance, after the Non-Public Issuance, Hualu Investment proposes to subscribe for no more than 36,284,470 shares (inclusive). According to the calculation of the upper limit of the number of shares under the Non-Public Issuance, i.e. 36,284,470, Hualu Holdings will directly hold 30.87% of the shares in the Company and remains the Controlling Shareholder of the Company after the Non-Public Issuance. Hualu Investment and Well Bring, subsidiaries of Hualu Holdings, hold 40,427,638 shares and 20,827,800 shares respectively, accounting for 6.09 % and 3.14% of the total share capital after the Issuance respectively. Hualu Holdings holds 266,119,530 shares in the Company directly and indirectly, which accounts for 40.10% of the total share capital after the Issuance. Shandong People's Government State-owned Assets Supervision and Administration Commission is still the actual controller of the Company.

Hence, the Issuance will not result in a change in right of control of the Company.

VIII. Approval obtained for the Issuance plan from the relevant competent authorities and procedures to be submitted for approval

The Non-Public Issuance plan has been reviewed and approved at the second extraordinary meeting of the 10th session of the Board of the Company in 2021 on 14 April, 2021.

The Non-Public Issuance is subject to obtaining approval from the state-owned assets administration institution, the granting of the whitewash waiver, approval from the SFC, the review and consideration by shareholders' general meeting and class meetings as well as the approval and verification by the CSRC.

After obtaining the approval of the CSRC, the Company will apply to the SSE and the China Clearing Corporation for matters relating to the Issuance, registration and listing of the shares under the Issuance, and complete all procedures to submitted for approval of shares of the Non-Public Issuance.

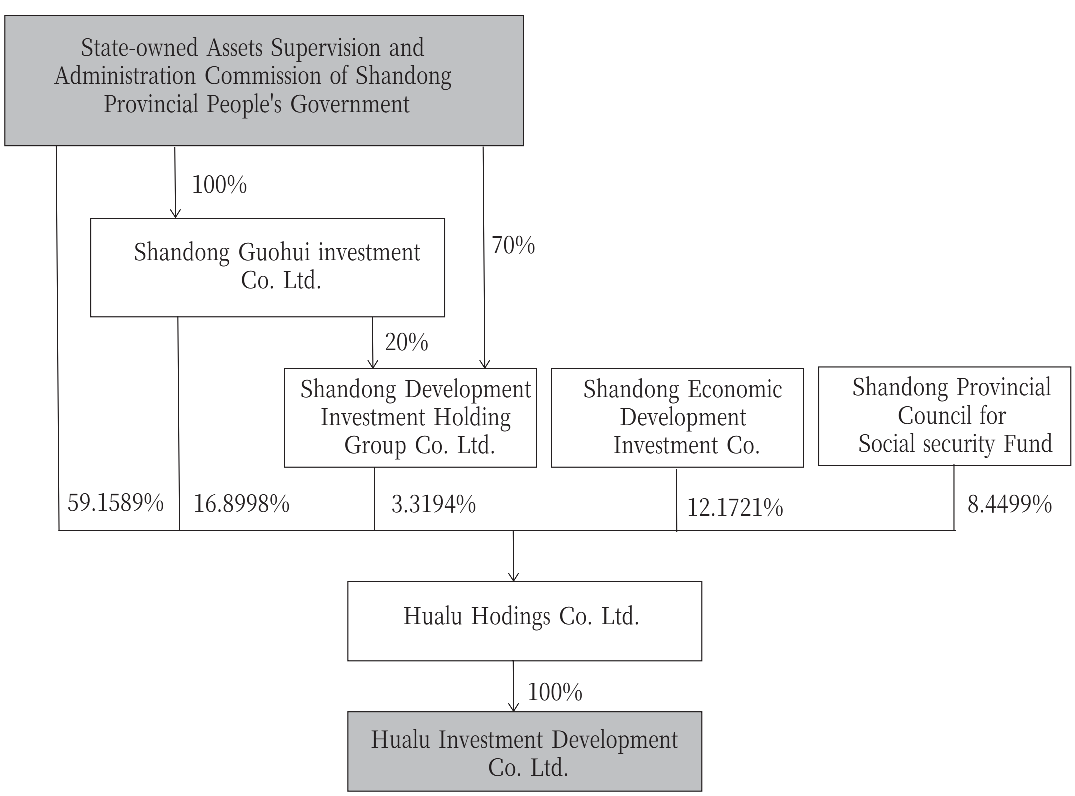
SECTION II BASIC INFORMATION OF THE TARGET SUBSCRIBER

I. Basic information

Company name	Hualu Investment Development Co. Ltd.
Legal address	21/F, Huachuang Guanli Center Building 2, No.219 Shunhai Road, High-tech Industrial Development Zone, Jinan
Legal representative	Zhang Chengyong (張成勇)
Registered capital	RMB300,000,000
Unified social credit code	91370000MA3CCJRU8T
Business scope	Investment, management and investment consultation with self-owned capital. (For projects subject to approval according to the law, business activities can only be carried out after approval by relevant departments)

II. Equity control relationship

As of the date of the announcement of the proposal, the control structure chart of Hualu Investment is as follows:



III. Main business condition and development and operating results of Hualu Investment in the recent three years

Hualu Investment is a wholly-owned subsidiary of Hualu Holdings, which is responsible for the state-owned capital operation of pharmaceutical, coal chemical and environmental protection sectors in Shandong Province. According to the functions entrusted by Hualu Holdings, Hualu Investment mainly carries out market-oriented investment and financing and capital operation business, and holds part of the equity of the listed companies Xinhua Pharmaceuticals, Lukang Pharmaceuticals and Hualu- Hengsheng. In 2018, 2019 and 2020, Hualu Investment achieved a net profit of 1,444,600 yuan, 2,006,500 yuan and 2,833,400 yuan, respectively, with the main results from investment income.

IV. Hualu Investment's key financial data for the most recent year

The key financial data of Hualu Investment for the most recent year is as follows:

Unit: RMB10,000

Item	31 December 2020/2020 year
Total assets	48,497.85
Total liability	9,212.98
Owners' equity	39,284.87
Operating income	0.00
Operating profits	299.4
Net profits	283.34

Note: the above data has been audited by WUYIGE Certified Public Accountants LLP.

V. Description on administrative punishment, criminal punishment and major civil litigation or arbitration related to economic disputes of Hualu Investment and its major management in the recent five years

As of the date of the announcement of the proposal, Hualu Investment and its directors, supervisors, senior management (or the principals) have not received any administrative punishment or criminal punishment related to the stock market, or been involved in major civil litigation or arbitration related to economic disputes within the past five years.

VI. After the completion of the Issuance, Hualu Investment and its controlling shareholder, the actual controller and the Company's competition and connected transactions

After the completion of the Issuance, the business relationship and management relationship between Hualu Investment and its Controlling Shareholder, actual controller and the Company will not undergo substantial change. Except for the connected transaction caused by Hualu Investment's participation in the Issuance, the Issuance will not result in new connected transactions and competition among the industry.

VII. Major transactions among Hualu Investment and its controlling shareholder, the actual controller and the Company within 24 months before the disclosure of the proposal

Please refer to the periodic reports or interim announcements disclosed by the listed Company for transactions between Hualu Investment and its Controlling Shareholder, actual controller and the listed Company within 24 months before the disclosure of this proposal. Except for the transactions disclosed by the listed Company in the periodic reports or interim reports, there is no other major transaction between the listed Company and the above connected parties. For details, please refer to the disclosure documents such as periodic reports and interim announcements published in the designated information disclosure media.

VIII. Source of funds for this subscription

The target subscriber Hualu Investment intends to participate in the subscription of the non-public development of the shares with its legal self-owned or self-raised funds.

IX. Notes on the exemption of the offer by Hualu Holdings

Upon completion of the non-public offering of shares, Hualu Investment shall hold 40,427,638 shares of the Company, and Hualu Holdings shall directly and indirectly hold 266,119,530 shares in the Company, accounting for 40.10 % of the total share capital of the Company after completion of the Issuance. Hualu Holdings controls more than 30% of the shares of the Company, resulting in the Issuance of the shares of the Company triggering the tender offer obligation stipulated in the *Administrative Measures for the Administration of the Takeover of Listed Companies (2020 Revision)*.

According to the relevant provisions of Article 63 of the *Measures for the Administration of the Takeover of Listed Companies (2020 Revision)*, upon the approval of non-affiliated shareholders of the general meeting of shareholders of the listed company, if an investor acquires new shares issued by the listed company which results in the investor's interests in the listed company exceeding 30% of the shares issued by the listed company and the investor undertakes not to transfer the new shares issued to the investor within three years; and if the general meeting of shareholders of the company agrees that the investor shall be exempted from issuing an offer, the investor may be exempted from issuing a general offer.

In view of the fact that the Non-Public Issuance will not result in a change of the actual controller of the Company, and in accordance with the conditional share subscription contract signed by the Company and Hualu Investment, the Non-Public Issuance of shares subscribed by Hualu Investment shall not be transferred within 36 months from the date of the closing of the offering. Subject to the approval of non-affiliated shareholders in the general meeting of shareholders of the Company, the Board of Directors agrees to request the general meeting of shareholders to approve Hualu Investment and its concert parties to exempt themselves from the general offer in the case of exemption from the offer in accordance with Article 63 of the *Measures for the Administration of the Takeover of Listed Companies (2020 Revision)*. This proposal needs to be approved by the general meeting of shareholders, and the affiliated shareholders will abstain from voting on the relevant proposal.

SECTION III SUMMARY OF THE CONDITIONAL SHARE SUBSCRIPTION AGREEMENT

As of the date of the announcement of the proposal, the Company and the target subscriber, Hualu Investment, have entered into a conditional share subscription agreement, and the main contents of which are as follows:

I. Parties to the Contract and the date of signing

Party A (Issuer): Shandong Xinhua Pharmaceutical Co. Ltd.

Party B (Subscriber): Hualu Investment Development Co. Ltd.

Date of Signing: 14 April 2021

II. Target subscriber, number of subscribed shares, pricing principles and subscription amount, lock-up period

(I) Target subscriber and number of subscribed shares

Party B intends to subscribe for 36,284,470 shares (hereinafter referred to as the Target Shares) of the Non-Public Issuance of Party A in accordance with the terms and conditions set forth herein. If there is any change in the total share capital of Party A or any adjustment in the Issuance price of Party A's A shares prior to the Issuance due to any ex-right or ex-dividend event such as dividend payout, bonus shares, conversion of capital reserves into additional share capital, or share allotment, or other reasons during the period from the pricing benchmark date to the date of the Issuance, the upper limit of the number of shares issued by Party A and the number of shares subscribed by Party B shall be adjusted accordingly.

If the total number of shares of the Non-Public Issuanceis reduced due to changes in laws, regulations or regulatory policies, or as required by the Issuance approval documents, Party A's Board of Directors or its authorised persons shall adjust the subscription amount and the number of shares subscribed by Party B according to the authorisation of the general meeting of shareholders in accordance with the relevant laws, administrative regulations and the relevant provisions of the CSRC.

(II) Pricing principles and subscription amount

The price of Party B's subscription for Party A's non-publicly issued shares is RMB6.89 per share (the price shall not be less than 80% of the average price of Party A's A shares during the 20 trading days prior to the pricing benchmark date; or the higher value of Party A's unaudited net assets per share attributable to holders of ordinary shares of the parent company at the end of the most recent year prior to the pricing benchmark date). In the event of dividend payout, bonus shares, conversion of capital reserves into additional capital stock and other ex-rights and ex-dividends of Party A's A shares during the period from the pricing benchmark date to the date of the Issuance, the issuance price shall be adjusted accordingly.

Party B shall pay Party A RMB250 million (in figures: 250,000,000) for the purchase of 36,284,470 shares that are not publicly issued by Party A.

(III) Lock-up period

The shares purchased by Party B obtained through the Issuance shall not be transferred within 36 months from the completion of the Issuance. After the completion of the Issuance, the shares of Party A's non-public offering subscribed by Party B and derived from the Company's distribution of stock dividends, conversion of capital reserve into additional capital stock and other forms shall also be subject to the aforesaid lock-up arrangement. After the end of the lock-up period, the relevant provisions of the CSRC and the Shenzhen Stock Exchange shall be followed.

III. Method of payment

After the approval of the Non-Public Issuance is obtained from the CSRC, Party B shall, according to the written payment notice issued by Party A and the sponsoring institution (lead underwriter) of the Issuance, pay the full amount of the subscription fee for the Target Shares hereunder to the account specifically opened by the sponsoring institution (lead underwriter) for the purpose of the Non-Public Issuance according to the specific payment date determined by Party A and the sponsoring institution (lead underwriter). The subscription funds shall be transferred to the specific deposit account of Party A for raising funds after the accounting firm completes the verification and deducts the relevant expenses. After Party B pays the subscription price, Party A shall register the shares subscribed by Party B at the securities registration and clearing institution as soon as possible.

IV. Conditions precedent for the agreement

1. This agreement shall come into force on the date when the legal representatives or authorised representatives of both parties sign and affixed their official seals, and shall come into force on the first day when all the following conditions are satisfied:

   (1) in accordance with the relevant laws and the articles of association of the Company, the approval of the plan of the Non-Public Issuance and related matters has been obtained from the Company's Board, general meeting of shareholders and A share class meeting and H share class meeting;

   (2) the obtaining of approval of the whitewash waiver from the independent shareholders at the general meeting in compliance with applicable requirements of the Code on Takeovers and Mergers of Hong Kong ("**Takeovers Code**"), and HHC and persons acting in concert with it being exempt from the obligation to make a general offer triggered by the Non-Public Issuance under the laws of the PRC;

   (3) the approval from the relevant state-owned assets administration authorities of the PRC for the Non-Public Issuance having been obtained;

   (4) the grant of the whitewash waiver by the SFC to Hualu Investment and the parties acting in concert with it in accordance with the Code on Takeovers and Mergers of Hong Kong; and

   (5) the approval from the CSRC for the Non-Public Issuance has been obtained.

2. After the conclusion of this agreement, both parties shall make active efforts to create conditions for the fulfillment of the conditions precedent for the coming into effect of this agreement. Neither party shall be held responsible for the failure of this agreement to come into effect due to reasons not attributable to both parties.

V. Liability for breach of contract

1. Any party who breaches the provisions hereof, fails to fully perform the contract, or makes any false, untrue, concealment of facts or material omission in the representations and warranties hereunder shall constitute a breach of contract. The breaching party shall indemnify the other party for losses suffered thereby, unless otherwise agreed by both parties. The non-breaching party shall have the right to require the breaching party to continue to perform its obligations and take timely remedial measures to ensure the continued performance of this contract. At the same time, the breaching party shall indemnify the non-breaching party for the aforementioned losses.

2. Party B shall pay the share subscription fund in full in accordance with the provisions of article 3 of the agreement. In case of any delay, Party B shall, from the date of such delay, pay Party A the liquidated damages at the standard of 3/10,000 of the unpaid amount per day. If Party B still fails to pay the part after ten (10) working days, Party A shall have the right to terminate this contract or execute this contract according to the part paid by Party B. No matter whether Party A elects to terminate this contract or to execute this contract according to part of the amount paid by Party B, Party B shall pay liquidated damages equal to 10% of the overdue amount to Party A.

3. If Party B breaches its commitments and warranties made to Party A hereunder, Party A shall have the right to terminate this contract and Party B shall pay Party A liquidated damages equivalent to 10% of the subscription price of the Target Shares.

4. If the Issuance is not approved by (1) the Board of Directors of Party A; or (2) the general meeting of shareholders of Party A; or (3) the relevant state-owned assets management institution; or (4) the CSRC and/or other competent authority (if necessary); or (5) if Party A, based on its actual situation, market conditions, provisions of relevant laws and regulations or the review opinions of the CSRC, considers that the Non-Public Issuance has been unable to achieve the Issuance purpose, and applies to the CSRC for withdrawal of the Issuance application or termination of the Issuance, it shall not constitute a breach of contract by either party, and as such, the expenses incurred by both parties for this Issuance shall be borne by both parties respectively.

VI. Supplement, modification, assignment and termination of the contract

1. Any supplement or amendment to this contract shall become effective only by a written agreement reached by both Party A and Party B.

2. Neither party shall assign its rights and obligations under this contract to a third party without a written agreement reached by both Party A and Party B.

3. This contract may be terminated for the following reasons:

   (1) due to material changes in objective circumstances, both parties enter into a written agreement to terminate this contract prior to completion of the contract;

   (2) if either party is unable to continue to perform this contract due to closure of its business or the revocation of business license by the competent administrative authority due to its violation of laws and regulations;

(3) if either party of this contract is declared bankrupt by PRC court;

(4) this contract is terminated, cancelled or deemed invalid due to objections raised by the competent government authorities, securities registration or trading authorities or judicial authorities to the contents and performance of this contract, or the principles and provisions of this contract cannot be fulfilled, which seriously impairs the commercial objectives of Party A at the time of signing this contract;

(5) any change in the laws, administrative regulations and normative documents on which the contract is based causes the main contents of the contract to be inconsistent with the relevant requirements, or are otherwise incapable of being performed due to national policies or orders in force;

(6) due to the occurrence of force majeure events, both parties mutually agree and determine to terminate this contract following discussions.

VII. Others

1. This Contract shall come into force upon being signed and affixed official seals by the legal representatives or authorised representatives of both parties, and shall come into force upon the fulfillment of all the conditions precedent set forth in article 8 of the agreement.

2. The headings of this contract and the headings of the articles of this contract are for convenience only and shall not affect the interpretation of the contents of terms of this contract.

3. This contract is made in quadruplicate, with each party holding one copy. The remaining copies shall be kept by Party A and submitted to the relevant examination and approval authority. Each copy shall have the same legal effect.

SECTION IV FEASIBILITY ANALYSIS OF THE BOARD OF DIRECTORS ON THE USE OF PROCEEDS

I. Plan of the use of proceeds

The total amount of funds raised by the Non-Public Issuance of the Company shall not exceed RMB250 million (inclusive). After deducting the issuance expenses, all the funds shall be used to repay the interest-bearing debts and supplement the working capital, of which the repayment of the interest-bearing debts shall not exceed RMB140 million and the remaining funds shall supplement the working capital of the Company.

In case of any discrepancy between the timing when the funds raised by the Issuance are received and the actual repayment of the corresponding bank loans and other interest-bearing liabilities, the Company will repay with its own funds first and replace the funds raised by the Issuance after the funds are received.

II. Necessity and feasibility analysis on the use of proceeds

(I) Necessity on the use of proceeds

1. Optimising the capital structure, reducing financial risk and improving the risk-resistance capacity

As of March 31, 2021, the Company's combined asset-liability ratio was 51.43%. Compared with comparable listed companies in the same industry, the Company's asset-liability ratio has been on a relatively high trend for a long time. The Company's ability to expand its business scale is limited to a certain extent by the Company's overall capital and liability situation. After the completion of the Non-Public Issuance, the Company's capital will be increased, financial expenses and asset-liability ratio will be reduced, working capital will be supplemented, capital structure will be optimised, financial position will be further improved, financial risks will be reduced, and the capacity to mitigate risks will be enhanced.

2. *Supplementing working capital and laying a good foundation for the Company's sustainable and stable development*

As of March 31, 2021, the total monetary capital of the Company was RMB913,617,400, including bank deposits of RMB787,991,000.

The Company's daily operations, the update and maintenance of production equipment, new product research and development and marketing all need abundant funds as support. With the steady development of the business and increasing working capital requirements, this fund raising for the purposes of supplementing working capital will be conducive to the resource integration of the Company. It will also accelerate the Company's development strategy, consolidate the cornerstone of the Company's sustainable development, lay a solid foundation for the healthy, stable, and sustainable development of the Company and maximise the interests of shareholders.

3. *Enhancing the capital strength of the Company to provide a guarantee for the next stage of its strategic layout*

At present, the Company is in the key stage of optimising its industrial layout, and supplementing working capital is of great importance to the strategic development of the Company. After the Company's capital strength is enhanced, it will continue to promote the strategy of large-scale preparations, large-scale research and development and internationalisation, and improve its internal reform and basic management. The raised funds will help the Company expand and optimise its framework in CRO, CMO and other business areas, enhance the Company's innovation ability, promote the Company's industrial technology upgrading, and further enhance the Company's core competitiveness.

4. *The subsidiary of the controlling shareholder subscribed for the shares issued, showing its confidence and support for the future business development of the Company*

Hualu Holdings plans to subscribe for the shares issued by the Company through Hualu Investment, which reflects the Controlling Shareholder's determination to give firm support to the Listed Company and confidence in the future development of the Company, which is conducive to the stable and sustainable development of the Company. With the injection of the funds raised by the Issuance, the Company's financial situation will be improved and its capacity to resist risks will be enhanced, which is conducive to the expansion of the Company's business scale and the continuous operation of subsequent business, and is also conducive to safeguarding the interests of the Company's small and medium-sized shareholders and realising the maximisation of the interests of the Company's shareholders.

(II) Feasibility of the use of proceeds

The Company's use of proceeds through the Non-Public Issuance is in accordance with the relevant policies and laws and regulations, and is feasible. After the funds raised by the Non-Public Issuance are received, the Company's capital will be increased, financial expenses and asset-liability ratio will be reduced, working capital will be supplemented, the Company's capital structure will be optimised, the financial position will be further improved, financial risks will be reduced, the ability to enhance risk resistance will be enhanced, and the Company's strategy will be promoted to play a positive role.

III. The application for approval related to the investment of the proceeds

After deducting the issuance expenses, all the funds raised by the Non-Public Issuance will be used to repay the interest-bearing debts and supplement the working capital, of which the repayment of the interest-bearing debts will not exceed 140 million yuan, and the remaining funds will be used to supplement the working capital of the Company. It does not involve matters requiring the approval of relevant competent authorities.

SECTION V DISSCUSSION AND ANALYSIS OF THE BOARD OF DIRECTORS ON THE IMPACT OF THE ISSUANCE ON THE COMPANY

I. Impact of the Issuance on business, assets, Articles of Association, shareholding structure and senior management of the Company

(I) Impact of the Issuance on the Company's Business and Assets

The proceeds from the Non-Public Issuance would be used to repay interest-bearing debts and supplement working capital, including an amount not exceed RMB140,000,000.00 for repaying interest-bearing debts with the remaining proceeds for supplementing the working capital of the Company. Upon completion of the Issuance, the principal business of the Company shall remain unchanged and no integration of existing business and assets is involved. The Non-Public Issuance meets the requirements of its long-term development strategy, and the proceeds thereof will effectively enhance the net assests level and reduce the gearing ratio of the Company, improve the financial structure, advance the business development and improve the risk-resistance capacity of the Company.

(II) Changes to the Articles of Association after the Issuance

The share capital would increase accordingly upon completion of the Non-Public Issuance. The Company will make amendments to relevant articles of the Articles of Association in connection with share capital structure, registered capital etc. pursuant to related regulations and the actual issuance situations and comply with the procedures for the change in industrial and commercial registration.

(III) Impact of the Issuance on capital structure

The target subscriber of the Non-Public Issuance is Hualu Investment. As of the announcement date of the proposal, Hualu Holdings, as the Controlling Shareholder of the Company, directly holds 204,864,092 shares of the Company, i.e. 32.65% of the total shares of the Company. Hualu Investment and Well Bring, subsidiaries of Hualu Holdings, hold 4,143,168 shares and 20,827,800 shares in the Company respectively, i.e. 0.66% and 3.32% of the total shares of the Company respectively, with Shandong Provincial People's Government State-owned Assets Supervision and Administration Commission as the actual controller of the Company. Hualu Investment will subscribe shares under the Non-Public Issuance fully in cash and the proportion of shares held by the Controlling Shareholder would increase upon completion of the Issuance and Shandong Provincial People's Government State-owned Assets Supervision and Administration Commission will remain as the actual controller of the Company. Therefore, the issuance will not result in change in actual control of the Company.

(IV) Impact of the issuance on senior management structure

The Listed Company would not adjust its senior management due to the issuance, and the senior management structure will not change due to the Non-Public Issuance.

(V) Changes to business structure of the Company after completion of the issuance

The proceeds from the Non-Public Issuance after deducting issuance expenditure, is proposed to be fully used to repay bank loans and supplement working capital, including an amount not exceed RMB140,000,000.00 for repaying interest-bearing debts with the remaining funds for supplementing working capital of the Company. The business structure of the Company will not change due to the Issuance.

II. Changes in financial position, profitability and cash flows of the Company after completion of the Issuance

(I) Impact on financial condition of the Company

Upon completion of the Non-Public Issuance, the Company's net assets will increase accordingly with total liabilities decreasing accordingly. The capital structure of the Company will be optimised, which is conductive to facilitating the Company's capital strength and capacity to resist risks.

(II) Impact on profitability of the Company

The proceeds from the Non-Public Issuance, after repaying bank loans, would reduce the financial expenses of the Company, improve the overall strength of the Company and thus further enhance the profitability of the Company.

(III) Impact of cash flows of the Company

Upon completion of the Non-Public Issuance, the cash inflow generated from financing activities of the Company will increase significantly since the target subscriber Hualu Investment subscribes shares in cash. Meanwhile, the proceeds would be fully used to repay bank loans and supplement working capital, which is conductive to reducing financing risks and costs of the Company and lowering cash outflow arising from financing activities. Adequate liquidity would also provide the Company with strong financial support, and help improve the Company's cash flow generated from future operation activities continuously.

III. Business relationship, management relationship, connected transactions and competition between the Company and the controlling shareholder, actual controller and its affiliates

There will be no changes in the business relationship, management relationship, connected transactions and competition between the Company and the Controlling Shareholder, actual controller and its affiliates arising from the Issuance. Hualu Investment, a wholly-owned subsidiary of the Controlling Shareholder Hualu Holdings, participates in the subscription for shares under the Non-Public Issuance, which constitutes a connected transaction. Other than that, no other connected transaction or competition between the Company and the Controlling Shareholder, actual controller and its affiliates will arise from the Issuance.

IV. Upon completion of the Issuance, whether there will be any embezzlement of funds and assets by the controlling shareholder and its affiliates, or whether any guarantee will be provided by the Company for the controlling shareholder and its affiliates

As of the announcement date of the proposal, there was no non-business embezzlement of funds and assets of the Company by the Controlling Shareholder or its affiliates, nor will there be any guarantee provided by the Company for its Controlling Shareholder or its affiliates. Upon completion of the Issuance, there will be no embezzlement of funds and assets of the Company by its Controlling Shareholder and its affiliates, or guarantee provided by the Company for its Controlling Shareholder or its affiliates.

V. Whether the debt structure of the Company is reasonable, whether the Company will significantly increase its liabilities (including contingent liabilities) as a result of the Issuance or has a gearing ratio that is too low or whether there are any unreasonable financing costs

As of 31 March, 2021, the gearing ratio of the Company on a consolidated basis was 51.43%. Upon completion of the Issuance, the gearing ratio of the Company will reduce to a reasonable level and the debt structure of the Company will be more robust, which will further enhance the Company’s capacity to resist risks. The Company will not significantly increase its liabilities (including contingent liabilities) or nor have a gearing ratio that is too low as a result of the Issuance, nor will there be any unreasonable financing costs.

VI. Risk factors concerning the issuance

In assessing the Non-Public Issuance of the Company, investors should, in addition to other materials provided by the proposal, take into consideration the below risks:

(I) Industry policy risk

Considering that the pharmaceutical industry concerns people's life, health and safety and that pharmaceutical enterprises have long been under strict supervision, the development of the industry has been significantly affected by industry policy. With the successive introduction of major industry policies such as the "two-vote system", consistency evaluation, volume-based purchasing policy etc., the reform of China's medical and health care system is being carried out step-by step. The introduction of relevant reform measures and the continuous improvement of policies, while advancing the orderly and healthy development of China's pharmaceutical industry, will also exert a profound impact on the operation mode of the industry. In this case, if the Company fails to adjust its strategies promptly and adapt to the policy changes, the operation of the Company would suffer some unfavourable impact to some extent.

(II) Research and development risks for new drugs

New drug research and development takes a long period, and needs intensive input. High risk exists in the process throughout pre-clinical research, clinical trial, new-drug certificate application and registration for approval until production. Problems arising from any stage of the industrialisation process of new drugs might cause failure of research and development. Besides, even after the commercialisation of products, there is a possibility that market promotion and product income may fail to reach expected results, which may bring a negative influence on the operation of the Company.

(III) International risks

As a top 5 domestic pharmaceutical export enterprise, the Company has established long-term strategic cooperation with more than 200 prestigious multinational companies such as Coke, Mitsubishi Pharma, GlaxoSmithKline, Bayer etc. However, in the process of implementing its international development strategy, the Company may still encounter issues such as insufficient familiarity with the overseas market environment, demand differences between overseas customers and domestic customers, trade protection enforced in some countries etc. If the Company fails to address relevant issues promptly and effectively, the operations of the Company would suffer unfavourable impact to some extent.

(IV) Risks of dilution of current returns

The proceeds from the Non-Public Issuance, once received, would increase the total share capital and net assets of the Company accordingly. Nonetheless, in the short-term, the extent of the increase in the Company's net profit might be lower than the extent of increase in its share capital and net assets, which will lead to risks of a certain decrease in financial indicators such as earnings per share and weighted average net return on equity and dilution of the immediate shareholder returns after the Issuance.

(V) Risk of approval

Matters regarding the Issuance, after being reviewed and approved by the Company's Board, shall be subject to the approval of the competent state-owned management authority, the granting of the whitewash waiver by the SFC, the review and consideration by the general meeting of shareholders and the class shareholders' meeting of the Company, and the approval of the CSRC. There are uncertainties on the obtaining of the relevant approval or verification as well as the timing of obtaining final approval and verification. All investors are advised to pay attention to the approval risks.

(VI) Risk of stock price volatility

The Non-Public Issuance would have significant impact on the production, operation and financial conditions of the Company, and such changes to the Company's basic conditions might affect its stock price. Moreover, national macroeconomic conditions, any adjustment of financial policy, any supply-demand change to stock market and investors' psychological expectations would all affect the stock price, with certain risks of stock price market volatility.

(VII) Risk arising from COVID-19

The outbreak of COVID-19 has had a considerable impact on the domestic and international economy since the beginning of 2020. Benefiting from the situation that the epidemic has been essentially under control in China, the Company resumed production quite smoothly. However, if the domestic epidemic situation reoccurs and the foreign epidemic condition cannot be controlled effectively within a short period, it would adversely affect many operation phases of the Company to some extent such as raw material procurement, production organisation, sale development, logistics and distribution etc., which may have negative impact on the steady operation and fast development of the Company.

SECTION VI PROFIT DISTRIBUTION POLICY AND DIVIDENDS DISTRIBUTION OF THE COMPANY

I. Profit distribution policy of the Company and its implementation

Provisions of the profit distribution policy in the Articles of Association are set out below:

"Clause 193 The Company adopts a positive profit distribution policy that should remain continuous and steady. The Company shall appreciate the reasonable return on investment for investors and its sustainable development when implementing its profit distribution policy.

(I) The board of directors and the general meeting of the Company may consider the opinions of the independent directors and public investors, especially minority shareholders, by means of telephone, fax, email etc. in the decision-making and demonstration of the profit distribution policy.

(II) The Company may distribute dividends in cash, in shares, in a combination of both cash and shares or other methods allowed by laws and regulations, among which the Company preferentially adopts cash dividends for profit distribution. The board of directors of the Company may propose interim profit distribution to the Company in accordance with profit status and capital requirements of the Company. The interval between 2 dividends shall not be less than 6 months unless demonstrated and agreed by the board of directors and independent opinions given by the independent directors and passed via resolutions by the board of supervisors.

(III) Cash dividends and all other distributions of domestic shares shall be distributed and paid in RMB. Cash dividends and all other distributions of overseas-listed foreign shares listed in Hong Kong shall be denominated and published in RMB and paid in Hong Kong dollars in accordance with the relevant foreign exchange regulations of China.

(IV) The board of directors of the Company should propose a profit distribution policy reasonably based on the comprehensive consideration of profit status, capital requirements and shareholder returns of the Company after the end of each fiscal year. The board of directors should, in the process of demonstrating a profit distribution proposal, fully discuss with the independent directors and supervisors and fully listen to the opinions of minority shareholders through various channels to carefully study and demonstrate issues such as the time, conditions and minimum percentage, adjustment preconditions of cash dividends of the Company and the decision-making procedures.

The profit distribution proposal, in the process of deliberation by the board of directors, board of supervisor of the Company, shall be subject to approval by more than half of all directors, more than half of the independent directors and more than half of all supervisors, and the independent directors should issue explicit opinions. The profit distribution proposal reviewed and approved by the board of directors should be submitted to the general meeting for deliberation. The proposal to pay stock dividends or convert surplus reserve into additional share capital, if reviewed and approved by the general meeting, should be subject to approval by more than two-thirds of the voting rights held by shareholders attending the general meeting.

(V) If the net profits realised by the Company in the year, after making up for the loss, fully allocating its profits to the statutory surplus reserve and discretionary surplus reserve, still produce a positive profit available for distribution and the auditor has issued a standard unqualified audit report for the annual financial statements of the Company (interim cash dividends may be excluded from the audit), in accordance with relevant laws and regulations as Company Law and stipulations in the Articles of Association, the Company should propose a cash dividends distribution policy, except for exceptional circumstances such as the occurrence of a significant investment scheme or major cash expenditures etc. Where the Company cannot carry out cash dividends distribution due to exceptional reasons after satisfaction with the afore-mentioned requirements for cash dividends distribution, the board of directors should give special instructions on issues as specific reasons for not implementing cash dividends distribution, usage of retained funds not distributed as dividends which should be submitted to the general meeting for review after the independent directors give opinions.

(VI) The Board shall take various factors into consideration, including its industry features, development stages, business model and profitability level as well as whether it has any significant capital expenditure arrangements, to differentiate the following circumstances and propose a differentiated policy for cash dividend distribution according to the procedures stipulated in the Articles of Association:

1. Where the Company is in a developed stage with no significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 80% of the total profit distribution;

2. Where the Company is in a developed stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 40% of the total profit distribution;

3. Where the Company is in a developing stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 20% of the total profit distribution;

4. In the case that it is difficult to distinguish the Company's stage of development but the Company has significant capital expenditure arrangements, such matter may be dealt with pursuant to the preceding provisions.

(VII) Based on the precondition that the normal business operation and long-term development of the Company could be ensured, if the Company has no major investment plans or major cash disbursements etc., the Company shall, in principle, carry out cash dividends distribution once a year. The profits distributed in cash by the Company shall not be less than 10% of the profits realised in the year and available for distribution, and if the above percentage could not be fulfilled due to exceptional reasons, the Board should give special instructions to the general meeting.

(VIII) Where the Company is in good operation status and the Board considers that the stock price of the Company is inconsistent with the share capital size of the Company and that payment of stock dividends is beneficial to the overall interests of all shareholders of the Company, the Company may put forward a stock dividends distribution proposal under the premise of the above cash dividends being satisfied.

(IX) The Company, if it really needs to adjust its profit distribution policy in accordance with the production and operation status, investment planning and long-term development needs or there have been changes in external business environment, should fully consider the protection of minority shareholders and the adjusted profit distribution policy should not be in breach of relevant regulations of securities regulators. The proposal on the adjustment of the profit distribution policy made by the Company is required to obtain the opinions of the independent directors and the board of supervisors and then be submitted to the general meeting after deliberation by the board of directors. And the proposal of the general meeting for deliberation on adjusted profit distribution policy should be approved by more than two-thirds of the voting rights held by shareholders attending the general meeting.

(X) After the shareholders' meeting of the Company makes a decision on the profit distribution plan, the board of directors shall complete the distribution of dividends (or shares) within two months from the date of the general meeting."

II. Dividends distribution and usage of undistributed profits of the Company in the recent three years

(I) The Company's dividends for the recent three years

Unit: RMB

Year	Amount of cash dividends	Net profit attributable to shareholders of the parent company in the consolidated financial statements	Percentage of cash dividends amount in current net profit attributable to shareholders of parent company *(%)*
2020	94,105,117.05	324,859,557.55	28.97
2019	74,623,133.64	299,966,265.71	24.88
2018	62,185,944.70	255,314,454.86	24.36
Total	**230,914,195.39**	**880,140,278.12**	**26.24**

(II) Arrangement for undistributed profits usage

The undistributed profits of the Company for the recent three years is mainly used for working capital required for the production and operations and capital expenditures necessary for the business development of the Company etc. in order to support the long-term and sustainable development of the Company.

III. Dividends distribution plan of the Company for future the three years

In order to set up and improve the scientific, sustained and stable dividend distribution policy and supervision mechanism of the Company, actively offer returns to investors, guide investors to establish concepts of long-term investment and reasonable investment, the Board of the Directors of the Company has formulated a shareholders' return plan for the next three years (2021–2023) (hereinafter referred to as the "**Plan**") by taking into account factors such as the profitability, operation and development plan, shareholder returns, social capital costs and external financing environment of the Company etc. and in accordance with laws, administrative rules and standardised documents such as the Company Law, the *Announcement on Further Implementation* *of Relevant Matters Concerning Cash Dividend Distribution of Listed Companies issued* by the CSRC, *Guidelines No. 3 on the Supervision and Administration of Listed Companies – Distribution of Cash Dividends of Listed Companies* etc. and the relevant provisions of the Articles of association, with the specific contents of the Plan as follows:

"Clause 1 Factors considered by the Plan

The Plan should focus on the long-term and sustainable development of the Company, comprehensively analyse factors such as the actual conditions of the Company's operations and development, shareholders' demand and intention, social capital costs, external financing environment etc., fully take into account aspects such as the Company's current and future profitability scale, cash flows, development stage, funding requirements for project investments, bank credit and debt financing environment etc., and make reasonable arrangements on the basis of balancing the reasonable returns on investment of shareholders and the long-term development of the Company so as to ensure continuity and stability of the profit distribution policy.

Clause 2 Principles for the formation of the Plan

The Plan is formulated in accordance with laws, administrative rules, standardised documents and provisions as well as the Articles of association. The Company implements a continuous and stable profit distribution policy and fully considers the opinions of shareholders especially minority shareholders and independent directors. The Company's profit distribution emphasises reasonable investment returns to investors in collaboration with the sustainable development of the Company. Subject to the satisfaction of the requirements of its normal operations and capital demands required by sustainable development, the Company preferentially selects cash dividends, develops a cash dividends system, and maintains consistency, reasonableness and stability of its cash dividend policy.

Clause 3 Specific plans for shareholders' return of the Company in the next three years (2021–2023)

1. Method of profit distribution

   The Company may distribute dividends in cash, in shares, in a combination of both cash and shares, or other methods allowed by laws and regulations. Among those methods of profit distribution, the Company preferentially adopts cash dividends for profit distribution. The Board of Directors may propose to the Company for an interim profit distribution in accordance with the profitability status and capital requirements of the Company. The interval between two dividends shall not be less than 6 months unless demonstrated and agreed by the board of directors and independent opinions given by the independent directors and passed via resolutions by the board of supervisors.

2. Conditions and percentage of profit distribution

(1) Conditions, percentage and interval of cash dividends

If the net profits realised by the Company in the year, after making up for any loss, fully allocating its profits to the statutory surplus reserve and discretionary surplus reserve, still produce a positive profit available for distribution and the auditor has issued a standard unqualified audit report for the annual financial statements of the Company (interim cash dividends may be excluded from the audit), in accordance with relevant laws and administrative regulations such as the Company Law and stipulations in the Articles of association, the Company should propose a cash dividends distribution policy, except for exceptional circumstances such as the occurrence of a significant investment scheme or major cash expenditures etc.

Based on the precondition that the normal business operations and long-term development of the Company could be ensured, if the Company has no major investment plans or major cash disbursements etc., the Company shall, in principle, carry out a cash dividends distribution once a year. The profits distributed in cash by the Company shall not be less than 10% of the profits realised in the year and available for distribution, and if the above percentage could not be fulfilled due to exceptional reasons, the Board should give a special explanation to the general meeting.

(2) Conditions for stock dividends distribution

Where the Company is in good operation status and the Board considers that the stock price of the Company is inconsistent with the share capital size of the Company and that payment of stock dividends is beneficial to the overall interests of all shareholders of the Company, the Company may put forward a stock dividends distribution proposal under the premise of the above cash dividends being satisfied.

(3) Differentiated policy for cash dividend distribution

During the future years, the Board shall take various factors into consideration, including its industry features, development stages, business model and profitability level as well as whether it has any significant capital expenditure arrangements, to differentiate the following circumstances and propose a differentiated policy for cash dividend distribution according to the procedures stipulated in the Articles of association:

1) Where the Company is in a developed stage with no significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 80% of the total profit distribution;

2) Where the Company is in a developed stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 40% of the total profit distribution;

3) Where the Company is in a developing stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 20% of the total profit distribution.

4) In the case that it is difficult to distinguish the Company's stage of development but the Company has significant capital expenditure arrangements, such matter may be dealt with pursuant to the preceding provisions.

(4) Review Procedures for Profit Distribution Plan

After the end of each financial year, the Company's Board of Directors should reasonably put forward a profit distribution plan based on the Company's profitability, capital needs and shareholder returns. During the demonstration process of the profit distribution plan, the Board of Directors must fully discuss with the independent directors and supervisors and listen to the opinions of minority shareholders through different channels. The Board of Directors also need to carefully study and demonstrate the timing, conditions and minimum ratio of the Company's cash dividends, adjustment conditions and the requirements for the decision-making procedures.

When reviewing the profit distribution plan, the Board of Directors and the board of supervisors shall obtain the consent of more than half of all directors, more than half of independent directors, and more than half of all supervisors respectively, and independent directors shall express clear opinions. The profit distribution plan approved by the Board of Directors shall be submitted to the Company's general meeting of shareholders for deliberation. If the general meeting of shareholders considers the distribution of stock dividends or the conversion of public reserve funds into share capital, such distribution or conversion must be approved by more than two-thirds of the voting rights held by shareholders attending the general meeting.

When the Company meets the conditions for cash dividends while the Company does not make cash dividends due to special reasons, the Board of Directors should make special explanations on the specific reasons for not making cash dividends, the purpose of retaining funds not used for dividends, etc., and submit them to the general meeting of shareholders for review after the independent directors have expressed their opinions.

(5) Adjustment of Profit Distribution Policy

In the process of decision-making and demonstration of the profit distribution policy, the Board of Directors and the general meeting of shareholders should take into account the opinions of independent directors and public investors, especially minority shareholders by telephone, fax, email and other methods.

If the Company really needs to adjust its profit distribution policy based on the Company's production and operation condition, investment planning, long-term development needs, or changes in the external operating environment, it shall fully consider protecting the rights and interests of minority shareholders. The adjusted profit distribution policy shall not violate relevant regulations of the securities regulatory authority. The Company shall seek opinions from the independent directors and the board of supervisors in advance for making the proposal to adjust the profit distribution policy and shall submit the proposal to the general meeting of shareholders after review by the Board of Directors. Proposals for deliberating and adjusting the profit distribution policy at the general meeting of shareholders must be passed by more than two-thirds of the voting rights held by the shareholders attending the general meeting.

Clause 4 Formulation and Adjustment of Shareholder Return Plans

1. The Company formulates and adjusts shareholder return plans in accordance with laws, administrative regulations, regulatory documents and the requirements of regulatory authorities, while taking into consideration of the actual circumstances of the Company and the opinions of shareholders (especially minority shareholders).

2. On the basis of fully considering the Company's profit scale, cash flow condition, development stage and current capital needs, and combining the opinions of shareholders, especially minority shareholders, the Board of Directors formulates the shareholder return plan, which will be commented independently by the independent directors and submitted to the general meeting for approval.

3. If the Company is in actual need of adjusting its established shareholder return plan due to a change in the external business environment or the Company's own business needs, the adjusted plan shall be reviewed and approved by the Board of Directors and the independent directors, and then submitted to the general meeting of shareholders for approval by a special resolution."

SECTION VII DILUTION OF CURRENT RETURNS AND MEASURES TAKEN

I. Analysis on the impact of risks arising from dilution of current returns by the Non-Public Issuance on the key financial indicators

After the Issuance is completed, the Company's net assets will increase. In the short term, when the raised funds cannot be fully utilised, the Company's earnings per share and return on net assets may be affected to a certain extent; in the medium and long term, the increase in the amount of capital brought about by the proceeds from the Non-Public Issuance will effectively promote the expansion of the Company's business scale and further enhance the Company's business scale and profitability. The Company will actively take various measures to improve the efficiency of the use of net assets and capital in order to obtain a good rate of return on net assets.

(I) Major assumptions

1. Considering that the review and issuance of the Non-Public Issuance will take a certain amount of time, it is assumed that the Non-Public Issuance will be completed in October 2021, which is only an estimated date. The actual date of completion is subject to the approval of the CSRC of the Issuance.

2. Without taking into account the issuance cost, and assuming that the final number of shares to be issued in the Non-Public Issuance is the upper limit of the number of shares (i.e. 36,284,470) to be issued, the final number of shares to be issued is subject to the number of shares approved by the CSRC. It is also assumed that the total amount of funds raised in the Non-Public Issuance is the upper limit of the total amount of funds raised in the Non-Public Issuance, RMB250 million.

3. The net profit attributable to the shareholders of the parent company in 2020 was RMB324,859,600, and the net profit attributable to the owner of the parent company after deducting non-recurring gains and losses was RMB290,790,000. It is assumed that the net profit attributable to the owner of the parent company after deducting non-recurring gains and losses in 2021 can be classified into the following three situations:

   (1) increasing by 10% compared with 2020;

   (2) remaining at the same level as 2020;

   (3) decreasing by 10% compared with 2020.

4. The impact on the Company's production and operations and financial condition (such as financial expenses and financial income) after the funds raised by the Issuance are not taken into consideration.

5. It is assumed that there are no significant adverse changes in the macroeconomic environment and the industry conditions in which the Company operates.

6. When predicting the net assets of the Company after the Issuance, the impact of other factors on the net assets of the Company is not considered except for the funds raised and the net profit after the Issuance.

7. When predicting the total issued shares of the Company, the basis relied on was the 621,859,447 shares of the total issued shares as at 31 December 2020; 5,508,000 new A shares were issued in January 2021 in accordance with the 2018 Share Option Incentive Scheme following the exercise of the share options in the first exercise period. It is assumed that apart from the aforementioned matters and the Non-Public Issuance, no other events which may cause changes in the share capital are considered.

8. The above assumptions are intended only to measure the impact of the current Non-Public Issuance's diluted immediate returns on the Company's key financial indicators, and do not represent the Company's judgment of business conditions and trends in 2021, nor do they constitute a profit forecast. An investor shall not make investment decisions based on this, and the Company shall not be liable for compensation if an investor makes investment decisions based on this and incurs losses.

(II) Impact on key financial indicators

Based on the aforesaid assumptions, the impact of the Non-Public Issuance on key financial indicators of the Company as calculated by the Company is as follows:

Item	2020/31 December 2020	2021/31 December 2021 Before the Issuance	2021/31 December 2021 After the Issuance
Total share capital (share)	621,859,447	627,367,447	663,651,917
Scenario 1: net profit for 2021 remains at the same level			
Net profit attributable to the shareholders of listed Company in the current period *(in RMB ten thousand)*	32,485.96	32,485.96	32,485.96
Net profit attributable to the shareholders of listed Company after deduction of non-recurring items *(in RMB ten thousand)*	29,079.00	29,079.00	29,079.00
Basic earnings per share *(RMB/share)*	0.52	0.52	0.51
Basic earnings per share after deduction of non-recurring items *(RMB/share)*	0.47	0.46	0.46
Diluted basic earnings per share *(RMB/share)*	0.52	0.52	0.51
Diluted basic earnings per share after deduction of non-recurring items *(RMB/share)*	0.47	0.46	0.46
Scenario 2：net profit for 2021 increases by 10%			
Net profit attributable to the shareholders of listed Company in the current period *(in RMB ten thousand)*	32,485.96	35,734.55	35,734.55

Item	2020/31 December 2020	2021/31 December 2021 Before the Issuance	After the Issuance
Net profit attributable to the shareholders of listed Company after deduction of non-recurring items *(in RMB ten thousand)*	29,079.00	31,986.90	31,986.90
Basic earnings per share *(RMB/share)*	0.52	0.57	0.56
Basic earnings per share after deduction of non-recurring items *(RMB/share)*	0.47	0.51	0.51
Diluted basic earnings per share *(RMB/share)*	0.52	0.57	0.56
Diluted basic earnings per share after deduction of non-recurring items *(RMB/share)*	0.47	0.51	0.51
Scenario 3: net profit for 2021 decreases by 10%			
Net profit attributable to the shareholders of listed Company in the current period *(in RMB ten thousand)*	32,485.96	29,237.36	29,237.36
Net profit attributable to the shareholders of listed Company after deduction of non-recurring items *(in RMB ten thousand)*	29,079.00	26,171.10	26,171.10
Basic earnings per share *(RMB/share)*	0.52	0.47	0.46
Basic earnings per share after deduction of non-recurring items *(RMB/share)*	0.47	0.42	0.41
Diluted basic earnings per share *(RMB/share)*	0.52	0.47	0.46
Diluted basic earnings per share after deduction of non-recurring items *(RMB/share)*	0.47	0.42	0.41

Notes on the calculation are as follows:

1. The Company's hypothetical analysis of the annual net profit in 2021 does not constitute the Company's profit forecast, and investors shall not make investment decisions based on it. If investors make investment decisions based on it and incur losses, the Company shall not be liable for compensation.

2. The number of non-public issued shares and the completion time of the Issuance are only estimates, and shall be subject to the final number of shares approved by the regulatory authorities and the actual time of completion for the Issuance.

3. When forecasting the main financial indicators after the Issuance of the Company, the impact of other factors on the main financial indicators are not considered except for the total amount of funds to be raised and the net profit.

The Company reminds investors that the above analysis does not constitute the Company's profit forecast. The Issuance still needs to be approved by the regulatory authorities, and there are uncertainties whether it will be approved, when it will be approved, and when the issuance will be completed. Investors are hereby reminded to pay attention to the impact of the Issuance on immediate returns.

II. The relationship between the fundraising project and the Company's existing business and the Company's personnel, technology, and market reserves for fundraising projects

All the funds raised by the Company in cash will be used to repay interest-bearing liabilities and supplement working capital after deducting the issuance costs, which can effectively improve the Company's financial status and provide good support for the Company's existing business. This fundraising project does not involve specific construction projects nor the Company's personnel, technology, and market reserves for fundraising projects.

III. Specific measures taken by the Company to remedy returns

In order to protect the interests of investors, the Company will take a variety of measures to ensure the effective use of the raised funds, effectively prevent the risk of immediate returns being diluted, and improve future returns. Specific measures include the following:

(I) Strengthening the management of proceeds to effectively protect the interests of investors

In accordance with the *Company Law, Securities Law, Administrative Measures for the Issuance of Securities by Listed Companies, Regulatory Guidelines for Listed Companies No. 2 – Regulatory Requirements for the Management and Use of Funds Raised by Listed Companies, Rules Governing the Listing of Shares on Shenzhen Stock Exchange, Guidelines of the Shenzhen Stock Exchange for the Standard Operation of Listed Companies on the Main Board* and other relevant laws and regulations, along with Articles of association, the Company has formulated the *Administrative Measures for the Use of Proceeds* to regulate the storage, use, change of purpose, management and supervision of the special accounts for proceeds. In order to ensure the Company's standardised and effective use of proceeds, after the funds raised in the Issuance are received, the Board of Directors will continue to supervise the deposit and use of proceeds, conduct regular internal audits on proceeds, and cooperate with supervisory banks and sponsoring institutions in their inspections on the use of raised funds to ensure the reasonable and standardised use of raised funds and reasonably prevent the risks arising from the use of raised funds.

(II) Strengthening the level of corporate governance to ensure the development of the Company

The Company will strictly abide by the *Company Law, Securities Law, Code of Corporate Governance of Listed Companies* and other laws and regulations and regulatory documents, and continuously improve corporate governance to ensure that shareholders can fully exercise their rights and ensure that the Board of Directors can exercise their powers, make scientific, prompt and prudent decisions in accordance with laws, regulations and the Articles of association. The Company will ensure that the independent directors can perform their duties seriously, safeguard the overall interests of the Company, especially the legitimate rights and interests of minority shareholders, and ensure that the board of supervisors can independently and effectively exercise the power to supervise and inspect the directors, senior management and the company's finances, and provide institutional guarantees for the company's development.

(III) Strictly implementing the dividend policy to ensure the return of the Company's shareholders' interests

In accordance with the *Notice on Further Implementation of Matters in Relation to Cash Dividend of Listed Companies, Regulatory Guidelines for Listed Companies No. 3 – Cash Dividend of Listed Companies and Guidelines for Articles of Association of Listed Companies*, on the basis of fully considering the return on investment to shareholders and taking into account the Company's growth and development, the Company has formulated the *Shareholder Return Plan for the Next Three Years (2021–2023)* based on its actual circumstances, further clarifying and improving the Company's profit distribution principles and methods; profit distribution, especially the specific conditions and proportions of cash dividends; and the distribution conditions of stock dividends, improving the Company's profit distribution decision-making procedures and mechanisms, and the decision-making procedures for adjusting profit distribution policy.

In the future, the Company will continue to strictly implement the Company's dividend policy, strengthen the supervision and management mechanism of investor returns, and ensure that the interests of the Company's shareholders, especially that of minority shareholders are protected, and strive to improve the level of shareholder returns.

(IV) Strengthening technology research and development and promoting innovation and development

The Company will fully implement the "Greater Research and Development Plan", further increase research and development investment and accelerate the reform of the scientific research system and mechanism, further improve the research and development system and research and development platform construction, and further enrich the pain control, cardiovascular and cerebrovascular, and anti-tumor categories and other new products in the research and development pipeline. The Company will accelerate the application of new preparation technologies, further upgrade high-end drug delivery systems, and achieve breakthroughs in antibody drugs and major innovative drugs.

The Company will efficiently integrate existing resources, accelerate the work on subsequent products, especially the consistency evaluation of key products, and strive to obtain consistency evaluation approval for four products such as amoxicillin capsules.

IV. Undertakings of directors and senior management in relation to measures to compensate for returns

In order to implement regulations including the *Opinions of the General Office of the State Council on Further Strengthening the Work of Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets, Opinions of the State Council on Further Promoting the Sound Development of Capital Markets and CSRC's Guiding Opinions on Matters concerning the Dilution of Immediate Return in Initial Public Offering, Refinancing and Material Asset Restructuring*, and to effectively protect the legitimate interests of investors, especially those of minority investors, all directors and senior management of the Company makes the following undertakings:

1. "I undertake that I will not direct benefits to other units or individuals at nil consideration or on unfair terms, and will not harm the Company's interests in any other manner;

2. I undertake that I will act to control work-related spending;

3. I undertake that I will not utilise the assets of the Company for any investment or consumption irrelevant to the performance of my duties;

4. I undertake that the remuneration system formulated by the Board or the remuneration committee will correspond with the implementation of the Company's measures to compensate for diluted current returns;

5. in the event of the implementation of any share option incentive scheme by the Company in the future, I undertake that the conditions for exercising options under such scheme will correspond with the implementation of the Company's measures to compensate for diluted returns;

6. from the date of the issue of this undertaking to the completion of the Company's Non-Public Issuance of A Shares, if the state and securities regulatory authorities issue other new regulatory requirements on measures for listed companies to compensate for diluted current returns, and this undertaking cannot meet the requirements of the state and securities regulations, I promise to issue an undertaking in accordance with the latest regulations of the state and securities regulatory authorities; and

7. as one of the responsible parties in relation to the measures to compensate for returns, if I violate the undertaking or refuse to fulfill this undertaking, I agree that the state or securities regulatory authorities will impose relevant penalties or take relevant regulatory measures in accordance with the relevant regulations and rules formulated or issued by it."

V. Undertakings of the controlling shareholder of the Company in relation to measures to compensate for returns of the Company

In order to implement regulations including the *Opinions of the General Office of the State Council on Further Strengthening the Work of Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets, Opinions of the State Council on Further Promoting the Sound Development of Capital Markets and CSRC's Guiding Opinions on Matters concerning the Dilution of Immediate Return in Initial Public Offering, Refinancing and Material Asset Restructuring*, and to effectively protect the legitimate interests of investors, especially those of minority investors, the Controlling Shareholder of the Company makes the following undertakings:

1. "we undertake that we will not act beyond our powers to interfere with the Company's operating and management activities or infringe upon the Company's interests;

2. from the date of the issue of this undertaking to the completion of the Company's Non-Public Issuance of A Shares, if the state and securities regulatory authorities issue other new regulatory requirements on measures for listed companies to compensate for diluted current returns, and this undertaking cannot meet the requirements of the state and securities regulations, we promise to issue an undertaking in accordance with the latest regulations of the state and securities regulatory authorities; and

3. we undertake to take the relevant measures to compensate for the diluted current returns formulated by the Company and fulfill this undertaking. If any loss is caused to the Company or investors due to the breach of this undertaking or the refusal to fulfill this undertaking, the Company is willing to assume the corresponding liability and compensate the losses in accordance with the law."

SECTION VIII OTHER DISCLOSURES

There is no other necessary disclosure in the Non-Public Issuance.

(No text on this page. This is the sealed page of Shandong Xinhua Pharmaceutical Company Limited's 2021 Proposal for Non-public Issuance of A Shares)

Board of Directors
Shandong Xinhua Pharmaceutical Company Limited

15 April 2021

Stock Code: 000756 **Abbreviation: Xinhua Pharm** **Announcement: 2021–23**

Shandong Xinhua Pharmaceutical Company Limited

2021 PROPOSAL FOR NON-PUBLIC ISSUANCE OF A SHARES FEASIBILITY ANALYSIS REPORT ON THE USE OF PROCEEDS

April 2021

Shandong Xinhua Pharmaceutical Company Limited (the "**Company**") intends to issue A shares in a non-public offering (the "**Non-Public Issuance**"). The total amount of proceeds shall not exceed RMB250,000,000 (inclusive). The feasibility analysis of the Company of on the use of the proceeds from the Non-Public Issuance is as follows:

I. Plan of the use of proceeds

The total amount of funds raised by the Non-Public Issuance of the Company shall not exceed RMB250 million (including this amount). After deducting the issuance expenses, all the funds shall be used to repay interest-bearing debts and supplement working capital, of which the repayment of the interest-bearing debts shall not exceed RMB140 million and the remaining funds shall supplement the working capital of the Company.

In case of any discrepancy between the timing when the funds raised by the Issuance are received and the actual repayment of the corresponding bank loans and other interest-bearing liabilities, the Company will repay with its own funds first and replace the funds raised by the Issuance after the funds are received.

II. Necessity and feasibility analysis on the use of proceeds

(I) Necessity on the use of proceeds

1. Optimising the capital structure, reducing financial risk and improving the risk-resistance capacity

As of March 31, 2021, the Company's combined asset-liability ratio was 51.43%. Compared with comparable listed companies in the same industry, the Company's asset-liability ratio has been on a relatively high trend for a long time. The Company's ability to expand its business scale is limited to a certain extent by the Company's overall capital and liability situation. After the completion of the Non-Public Issuance, the Company's capital will be increased, financial expenses and asset-liability ratio will be reduced, working capital will be supplemented, capital structure will be optimised, financial position will be further improved, financial risks will be reduced, and the capacity to mitigate risks will be enhanced.

2. *Supplementing working capital and laying a good foundation for the Company's sustainable and stable development*

As of March 31, 2021, the total monetary capital of the Company was RMB913,617,400, including bank deposits of RMB787,991,000.

The Company's daily operations, the update and maintenance of production equipment, marketing all need abundant funds as support. In order to further expand and optimize the Company's layout in business areas such as CRO and CMO, the Company's research and development expenditure will also increase in the future. With the steady development of the business and increasing working capital requirements, this fund-raising for the purposes of supplementing working capital will be conducive to the resource integration of the Company. It will also accelerate the Company's development strategy, lay a solid foundation for the healthy, stable, and sustainable development of the Company, and maximise the interests of shareholders.

3. *Enhancing the financial strength of the Company to provide a guarantee for the next stage of its strategic framework*

At present, the Company is in the key stage of optimising its industrial framework, and supplementing working capital is of great importance to the strategic development of the Company. After the Company's financial strength is enhanced, it will continue to promote the strategy of large-scale preparations, large-scale research and development and internationalisation, and improve its internal reform and basic management. The raised funds will help the Company expand and optimise its framework in CRO, CMO and other business areas, enhance the Company's innovation capabilities, promote the Company's industrial technology upgrading, and further enhance the Company's core competitiveness.

4. *The subsidiary of the controlling shareholder subscribed for the shares issued, showing its confidence and support for the future business development of the Company*

Hualu Holdings plans to subscribe for the shares issued by the Company through Hualu Investment, which reflects the controlling shareholder's determination to give firm support to the listed Company and confidence in the future development of the Company, which is conducive to the stable and sustainable development of the Company. With the injection of the funds raised by the Issuance, the Company's financial situation will be improved and its capacity to resist risks will be enhanced, which is conducive to the expansion of the Company's business scale and the continuous operation of subsequent business, and is also conducive to safeguarding the interests of the Company's small and medium-sized shareholders and realising the maximisation of the interests of the Company's shareholders.

(II) Feasibility of the use of proceeds

The Company's use of proceeds through the Non-Public Issuance is in accordance with the relevant policies and laws and regulations, and is feasible. After the funds raised by the Non-Public Issuance are received, the Company's capital will be increased, financial expenses and asset-liability ratio will be reduced, working capital will be supplemented, capital structure of the Company will be optimised, financial position will be further improved, financial risks will be reduced, capacity to enhance risk resistance will be enhanced, and strategy of the Company will be promoted to play a positive role.

III. The application for approval related to the investment of the proceeds

After deducting the issuance expenses, all the funds raised by the Non-Public Issuance will be used to repay interest-bearing debts and supplement working capital, of which the repayment of the interest-bearing debts will not exceed 140 million yuan, and the remaining funds will be used to supplement the working capital of the Company. The use of proceeds do not involve matters requiring the approval of relevant competent authorities.

IV. Changes in financial position, profitability and cash flows of the Company after completion of the Issuance

(I) Impact on financial condition of the Company

Upon completion of the Non-Public Issuance, the Company's net assets will increase accordingly with total liabilities decreasing accordingly. The capital structure of the Company will be optimised, which is conductive to facilitating the Company's capital strength and capacity to resist risks.

(II) Impact on profitability of the Company

The proceeds from the Non-Public Issuance, after repaying bank loans, would reduce the financial expenses of the Company, improve the overall strength of the Company, and thus further enhance the profitability of the Company.

(III) Impact of cash flows of the Company

Upon completion of the Non-Public Issuance, the cash inflow generated from financing activities of the Company will increase significantly since the target subscriber will subscribe shares in cash. Meanwhile, the proceeds will be fully used to repay bank loans and supplement working capital, which is conductive to reducing financing risks and costs of the Company and lowering cash outflow arising from financing activities. Adequate liquidity would also provide the Company with strong financial support, and help improve the Company's cash flow generated from future operation activities continuously.

V. Conclusion of the feasibility analysis report

To sum up, through the Non-Public Issuance, the Company is able to repay interest-bearing liabilities and supplement its working capital which facilitates the Company to increase its capital strength, provide capital guarantee for the stable growth of its main business and achieve its strategic development goals. It also helps to improve the capital structure of the Company, reduce debt level and financial risk, reduce financial expenses and expenditures and improve the profitability of the Company. As a result, the Non-Public Issuance allows the Company to repay bank loans and supplement its working capital, which in turn satisfies the development requirements of the Company, and hence it is feasible and necessary.

Board of Directors
Shandong Xinhua Pharmaceutical Company Limited

15 April 2021

Note: The English translation of this Appendix is unofficial translation for reference only. In the event of any inconsistency between the Chinese and English versions, the Chinese version shall prevail.

Authentication Report on Usage of Previously-Proceeds

XYZH/2021 JNAA50143

To: All shareholders of Shandong Xinhua Pharmaceutical Company Limited

We have undertaken authentication work on the usage report (as at December 31, 2020) on ordinary share funds in RMB raised in September, 2017 (**previously-proceeds**) by Shandong Xinhua Pharmaceutical Company Limited(“**Shandong Xinhua**”) (the “**Usage Report on Previously-Proceeds**”) as attached hereafter.

The responsibility of Shandong Xinhua management team is to prepare the Usage Report on Previously Proceeds in accordance with relevant regulations of the China Securities Regulatory Commission and the Shenzhen Stock Exchange, including designing, implementing and maintaining internal controls relevant to the preparation of Usage Report on Previously-Proceeds to ensure the truthfulness, accuracy and completeness of the Usage Report on Previously-Proceeds and without material misreporting caused by fraud or error. Our responsibility is to issue authentication opinions on the Usage Report on Previously-Proceeds based on the authentication work we conducted.

We, in accordance with requirements of Standards for Other Authentication Practices of Chinese Certified Public Accountants No. 3101 – Authentication Practices Other than Auditing or Reviewing Historical Financial Information, carried out the authentication work so as to acquire reasonable assurance as to whether any material misreporting exists in the Usage Report on Previously-Proceeds. In the course of performing the authentication work, we carried out authentication procedures that we considered necessary such as inquiry, examination and recalculation, with the selection of procedures based on our professional judgment. We believe that our authentication work lays a reasonable foundation for the issuance of our opinion.

We are of the view that the above Usage Report on Previously-Proceeds of Shandong Xinhua has been compiled in accordance with the relevant requirements of the China Securities Regulatory Commission and the Shenzhen Stock Exchange and in all material aspects, truthfully reflects the usage of the previously-proceeds by Shandong Xinhua up to 31 December 2020.

This authentication report is only for the purpose of application for security issuance by Shandong Xinhua, and shall not be used for any other purposes. We agree that this authentication report could be adopted as an integral part of the application documents for security issuance by Shandong Xinhua to be submitted together with other application documents.

Shin Wing Certified Public Accountants (Special General Partnership)
Chinese Certified Public Accountant: Han Jingping
Chinese Certified Public Accountant: Yuan Shangwei
Beijing, China April 14, 2021

Usage Report on Previously-Proceeds by
Shandong Xinhua Pharmaceutical Company Limited
as at December 31, 2020

The board of directors of Shandong Xinhua Pharmaceutical Company Limited (the "**Company**"), in accordance with Measures for the Administration of Securities Issuance by Listed Companies (Order No. 30 of China Securities Regulatory Commission) and Provisions on Reporting on the Use of Funds Raised in the Previous Period (ZJFX [2007] No.500) promulgated by the China Securities Regulatory Commission, prepared the Usage Report (as at 31 December 2020) on Ordinary Share Funds Raised by the Company in September, 2017 (the "**Usage Report on Previously-Proceeds**"). The board of directors of the Company undertakes that all information contained in the Usage Report on Previously-Proceeds is true, accurate and complete, without any misrepresentation, misleading statement or material omissions.

I. Situation of the previously-proceeds

1. Actual amount of proceeds, time of receipt of the proceeds, balance of the proceeds

In accordance with the approval by the China Securities Regulatory Commission in the "Reply to the Approval of Non-Public Issuance of Shares by Shandong Xinhua Pharmaceutical Company Limited" (ZJXK [2017]No.459), as well as the Articles of Association of the Company, the Company issued 21,040,591 shares in RMB to two specific investors on a non-public basis, at the issue price of RMB11.15, raising a total amount of RMB234,602,589.65, with the balance of RMB223,398,463.28 after deducting issuance costs. All proceeds above were received on 21 September 2017 and Shine Wing Certified Public Accountants (Special General Partnership) issued a Capital Verification Report (No. XYZH/2017JNA50532) for authentication.

As at 31 December 2020, the Company used the proceeds of RMB223,398,463.28 on an accumulated basis, and all such proceeds had been used up. On 23 April 2018, the Company transferred RMB91,351.79, the total interest balance of the special accounts for proceed-raising, into a general business account of the Company, thus leaving the balance of the special accounts for proceed-raising with an amount of RMB0.

2. *The deposit status of previously-proceed in the special accounts*

The Company has opened special accounts in banks for the deposit of the above proceed with details as below:

Amount unit: RMB

Bank	Account No.	Initial Deposit Amount	Balance on the Closing Date	Remarks
Business Department, Zhangdian Sub-branch in Zibo, Industrial and Commercial Bank of China	1603002129200497230	146,602,589.65	–	The raised funds deposited in the special account has been used up. The account was cancelled on 23 April 2018.
Business Department, Zibo Branch, Agricultural Bank of China	15211001040052972	80,000,000.00	–	The raised funds deposited in the special account has been used up. The account was cancelled on 23 April 2018.
Total		226,602,589.65	–	

Note: The above amounts include other relevant issuance costs RMB3,204,126.37.

II. Actual usage of previously-proceeds

1. *Comparison table of usage of previously-proceeds*

Please refer to the Table 1 Comparison Table of Usage of Previously-Proceeds as attached for details of comparison of usage of previously-proceeds as at December 31, 2020.

2. Difference between actual total investment amount of the proceeds project and as committed

The actual total investment amount of the Company in the previous proceeds is consistent with the amount as committed.

3. Changes in actual investment of previous proceeds project

There was no change in the investment project of the Company in the previous proceeds.

4. Whether the previous proceeds investment project has been transferred or replaced

No outward transfer or replacement has occurred to the previous proceeds of the Company.

5. Whether any idle proceed was used temporarily for other purpose

No proceed was idle for the previously-raised fund of the Company.

6. Funds from the previously-proceeds that have not been used up

As at 31 December 2020, the Company had used up all of the previously-proceeds in accordance with the proceeds purposes. On 23 April 2018, the Company transferred RMB91,351.79, the total interest balance of the special accounts for proceeds, into a general business account of the Company, thus leaving the balance of the special accounts for proceeds with an amount of RMB0. All bank accounts of the Company for proceeds have been cancelled.

III. Benefits realised by the investment project of the previously-proceeds

The investment of the previously-proceeds of the Company does not apply to the realisation of the benefits of the project.

IV. The performance of assets of the investment project of the previously-proceeds

No asset subscription for shares took place in the previously-proceeds of the Company.

V. Comparison between the actual usage of the previously-proceeds and relevant content in the Company information disclosure documents

The comparison between the actual usage of the previously-proceeds and the disclosure in the 2017 annual periodical report is as below:

Amount unit: 10,000.00RMB

Investment project	Time	Actual usage	Disclosure in annual report	Any difference or not
Repayment of bank loans	The year of 2017	22,339.85	22,339.85	No
Total		22,339.85	22,339.85	

The Board of Directors of Shandong Xinhua Pharmaceutical Company Limited

April 14, 2021

Attached Table 1:

Comparison Table of Usage of Previously-Proceeds

Prepared by: Shandong Xinhua Pharmaceutical Company Limited As at December 31, 2020 Amount unit: 10,000.00RMB

Total amount of proceeds:				22,339.85	Total amount of usage on an accumulative basis of proceeds:					22,339.85
Total amount of proceeds with a changed purpose:				–	The year of 2017:					22,339.85
Percentage of total amount of proceeds with a changed purpose:				–						
Invested projects			Total investment amount in the raised funds			Accumulated total investment amount of the raised funds upon deadline				Date when the project achieves scheduled condition available for usage (or project completion progress on deadline)
No.	Committed investment project	Actual investment project	Committed investment amount prior to proceeds	Committed investment amount after proceeds	Actual investment amount	Committed investment amount prior to proceeds	Committed investment amount after proceeds	Actual investment amount	Difference between actual investment amount and committed investment amount after proceeds	
1	Repay bank loans	Repay bank loans	22,339.85	22,339.85	22,339.85	22,339.85	22,339.85	22,339.85	–	N/A
Total			22,339.85	22,339.85	22,339.85	22,339.85	22,339.85	22,339.85	–	

Note: The English translation of this Appendix is unofficial translation for reference only. In the event of any inconsistency between the Chinese and English versions, the Chinese version shall prevail.

Stock Code: 000756 **Abbreviation: Xinhua Pharm** **Announcement: 2021–26**

Shandong Xinhua Pharmaceutical Company Limited
Shareholders Returns Plan for the next three years (Year 2021–2023)

The Company and all members of the board of directors guarantee that the information disclosed is true, accurate and complete, and without any mispresentation, misleading statements or material omissions.

In order to establish and improve the scientific, sustainable and stable dividend policy and supervision mechanism of Shandong Xinhua Pharmaceutical Company Limited (hereinafter referred to as the "**Company**"), give positive returns to investors, lead investors towards long-term and rational investment idea, the board of directors considers the corporate profitability, business development plan, shareholders returns, social capital cost and external financing environment and other factors comprehensively, on the basis of the Company Law of the People's Republic of China (hereinafter referred to as the "**Company Law**"), the Notice on Further Implementing Matters concerning Cash Dividends of Listed Companies and the Guideline No.3 for the Supervision of Listed Companies – Cash Dividends of Listed Companies issued by the China Securities Regulatory Commission as well as other laws, administrative regulations, normative documents and the requirements of the articles of association (hereinafter referred to as the "**Articles of Association**") of Shandong Xinhua Pharmaceutical Company Limited (hereinafter referred to as the "**Company**"), the Company formulates the shareholders returns plan for the next three years (2021–2023) (hereinafter referred to as "**the Plan**"). The details are as follows:

Article 1 Factors to be considered in the Plan

The Plan should focus on the long-term and sustainable development of the Company, comprehensively analyse the actual situation of the business development of the Company, shareholders' demand and will, social capital cost and external financing environment and other factors, give full consideration to the current and future profit level of the Company, cash flow status, development stage, project investment capital requirements, bank credit and debt financing environment and etc. The Plan shall make reasonable arrangements on the basis of balancing shareholders' reasonable investment returns and the long-term development of the Company, ensure the continuity and stability of profit distribution policies.

Article 2 The principle of the Plan

The Plan is formulated in accordance with the Company Law and other laws, administrative regulations, normative documents and the requirements of the Articles of Association of the Company. The Company implements a sustainable and stable profit distribution policy, and meanwhile gives full consideration to the opinions of shareholders, especially minority shareholders and independent directors. The profit distribution of the Company attaches great importance to the reasonable investment returns for investors and the sustainable development of the Company, and gives priority to cash dividends in the premise of meeting the capital demands of Company production and operation and sustainable development. The cash dividend system will be improved, which will maintain the consistency, rationality and stability of the cash dividend policy.

Article 3 The details of the shareholders returns plan of the Company in the next three years (Year 2021–2023)

1. The form of profit distribution

   The Company may distribute dividends in cash, stock, a combination of cash and stock, or in any other manner permitted by other laws and regulations. Among the above profit distribution methods, the Company gives priority to distribute dividends in cash. The board of directors of the Company may propose the distribution of mid-term profits according to the profit situation of the Company and capital requirements. The interval between two dividends shall not be less than six months unless agreed by the board of directors, independent opinions of the independent directors are issued and resolutions of the board of supervisors are passed.

2. The terms and proportions of profit distribution

   (1) Conditions, proportions and intervals of cash dividends

   In accordance with the Company Law and other laws, administrative regulations and the requirements of the Articles of Association, where the net distributable profits realised by the Company in the current year is positive after compensating for loss, withdrawing from the legal reserve fund and arbitrary reserve fund in full, and the audit firm has issued a standard unqualified audit report on the annual financial report of the Company (the interim cash dividend may not be audited), the Company must put forward a cash distribution plan, except in special circumstances (such as major investment plans or major cash disbursements, etc.).

On the basis of ensuring the normal operation and long-term development of the Company, if there is no major investment plan or major cash expenditure, the Company shall, in principle, pay a cash dividend once a year. The annual profits distributed in cash by the Company shall be no less than 10% of the distributable profits realised in the current year. If the percentage cannot be reached due to special reasons, the board of directors shall make a special explanation to the general meeting of shareholders.

(2) Conditions for the distribution of stock dividends

If the Company is in good business condition and the board of directors considers that the stock price of the Company does not match the size of the share capital of the Company and the payment of stock dividends is beneficial to the overall interests of all company shareholders, it may put forward a plan for the distribution of stock dividends on the condition that the above cash dividends are satisfied.

(3) Differentiated cash dividend policy

Over the next three years, the board of directors of the Company shall, taking into account the characteristics of the industry, development stage, its own business model, profit level and whether there is any major capital expenditure arrangement and other factors, distinguish the following situations and propose a differentiated cash dividend policy in accordance with the procedures prescribed in the Articles of Association:

1) If the Company is in the mature stage of development and there is no major capital expenditure arrangement, the cash dividend as a proportion of the profit distribution shall be at least 80%;

2) If the Company is in the mature stage of development and there are major capital expenditure arrangement, the cash dividend as a proportion of the profit distribution shall be at least 40%;

3) If the Company is in the growth stage and there are major capital expenditure arrangements, the cash dividends as a proportion of the profit distribution shall be at least 20%;

4) If the development stage of the Company is not easily distinguished but there are major capital expenditure arrangements, it may be handled in accordance with the provisions of the preceding paragraph.

(4) Review and approval procedures of the profit distribution plan

After the end of each fiscal year, the board of directors shall reasonably propose a profit distribution plan based on the Company's profit situation, capital requirements and shareholders returns. In the process of demonstrating the profit distribution plan, the board of directors shall fully discuss with the independent directors and supervisors, and fully listen to the opinions of minority shareholders through various channels, and carefully study and discuss the timing, conditions and the minimum proportion, adjustment conditions and the requirements of the decision-making procedures of the cash dividend of the Company.

When reviewing the profit distribution plan, the board of directors and the board of supervisors shall obtain the consent of more than half of all the directors, more than half of the independent directors and more than half of all the supervisors respectively, and the independent directors shall express clear opinions. The profit distribution plan approved by the board of directors shall be submitted to the general meeting of shareholders of the Company for deliberation. If the general meeting of shareholders reviews a plan to pay the stock dividends or to convert capital reserves to share capital, it shall be approved by more than two-thirds of the voting rights of the shareholders present at the general meeting.

If the Company meets the conditions for cash dividend and does not pay cash dividend due to special reasons, the board of directors shall make special explanations on the specific reasons for not making cash dividends and the retention purposes of funds not used for dividends and other matters, which are to be submitted to the general meeting of shareholders for deliberation after the opinions of the independent directors have been issued.

(5) The adjustment of the profit distribution policy

In the decision-making and demonstration of the profit distribution policy, the board of directors and the general meeting of shareholders of the Company shall consider the opinions of independent directors and public investors, especially minority shareholders through telephone, fax, mail and other methods.

If the Company really needs to adjust its profit distribution policy according to its production and operation situation, investment planning, long-term development needs, or changes in the external business environment, it shall give full consideration to the protection of the rights and interests of minority shareholders, and the adjusted profit distribution policy shall not violate the relevant provisions of the securities regulatory authority. The Company shall solicit the opinions of the independent directors and the board of supervisors in advance and submit the proposal concerning adjustment of profit distribution policy to the general meeting of shareholders after deliberation by the board of directors of the company. A proposal to adjust the profit distribution policy shall be approved by more than two-thirds of the voting rights held by the shareholders attending the general meeting of shareholders.

Article 4 Formulate and adjust shareholders returns plan

1. In accordance with the requirements of laws, administrative regulations, normative documents and regulatory authorities, the Company shall formulate and adjust the shareholders returns plan combined with the actual situation of the Company and the opinions of shareholders (especially minority shareholders).

2. Based on full consideration of the Company's profit scale, cash flow status, development stage and current capital demand, and combined with the opinions of shareholders, especially small and medium-sized shareholders, the board of directors formulates the shareholders returns plan and the independent directors express their independent opinions on the plan and submit it to the shareholders' general meeting for review and approval.

3. If it is really necessary for the Company to adjust the established shareholders returns plan due to the external business environment or the Company's own business needs, it shall be reviewed and approved by the board of directors and the independent directors, and then submitted to the general meeting of shareholders for approval through special resolution.

Article 5 Others

1. Matters not covered in the plan shall be implemented in accordance with relevant laws, administrative regulations, normative documents and the requirements of the Articles of Association.

2. The plan shall come into effect from the date of review and approval by the general meeting of shareholders of the Company and shall be interpreted by the board of directors of the Company.

The above is hereby announced.

Board of Directors
Shandong Xinhua Pharmaceutical Company Limited

15 April 2021

Note: The English translation of this Appendix is unofficial translation for reference only. In the event of any inconsistency between the Chinese and English versions, the Chinese version shall prevail.

Particulars of the Proposed Amendments to the Articles of Association

Articles of Association of the Company	
Existing Articles	**Amended Articles**
Article 20 By approval of the companies examination and approval department authorised by the State Council, the total number of ordinary shares of the Company could issue was 457,312,830 shares, including 217,440,000 state-owned shares issued to the promoter of the Company at the time when the Company was established, 16,719,500 legal person shares and 33,153,330 employee shares. As approved by China Securities Regulatory Commission, the Company issued 150,000,000 overseas listed foreign shares in 1996 and 10,000,000 domestically listed domestic shares to the domestic public in 1997. As approved by China Securities Regulatory Commission, the Company issued 30,000,000 domestically listed domestic shares to the domestic public in 2001. Meanwhile, the state-owned shares of the Company held by Shandong Xinhua Pharmaceutical Group Company Limited disposed of 30,000,000 shares in accordance with Cai Shui Cai Qi Bian Han [2001] No. 78 issued by the Ministry of Finance. In accordance with Lu Guo Zi Chan Quan Han [2006] No.74 issued by Shandong Provincial State-owned Assets Supervision and Administration Commission, Shandong Xinhua Pharmaceutical Group Company Limited offered 26,653,665 shares to all holders of circulating A shares as consideration.	**Article 20** By approval of the companies examination and approval department authorised by the State Council, the total number of ordinary shares of the Company could issue was 457,312,830 shares, including 217,440,000 state-owned shares issued to the promoter of the Company at the time when the Company was established, 16,719,500 legal person shares and 33,153,330 employee shares. As approved by China Securities Regulatory Commission, the Company issued 150,000,000 overseas listed foreign shares in 1996 and 10,000,000 domestically listed domestic shares to the domestic public in 1997. As approved by China Securities Regulatory Commission, the Company issued 30,000,000 domestically listed domestic shares to the domestic public in 2001. Meanwhile, the state-owned shares of the Company held by Shandong Xinhua Pharmaceutical Group Company Limited disposed of 30,000,000 shares in accordance with Cai Shui Cai Qi Bian Han [2001] No. 78 issued by the Ministry of Finance. In accordance with Lu Guo Zi Chan Quan Han [2006] No.74 issued by Shandong Provincial State-owned Assets Supervision and Administration Commission, Shandong Xinhua Pharmaceutical Group Company Limited offered 26,653,665 shares to all holders of circulating A shares as consideration.

Articles of Association of the Company	
Existing Articles	**Amended Articles**
By the Approval Document [2017] No. 459 issued by the China Securities Regulatory Commission, for the year 2017 the Company was allowed to proceed with the non-public issuance of 21,040,591 domestic shares to be listed in the PRC. Upon completion of the issuance, the structure of share capital of the Company is: the total number of shares is 478,353,421 shares, of which all are ordinary shares and listed domestic shares in the PRC are 328,353,421 shares, representing approximately 68.64% of the total number of shares of the Company; overseas listed foreign shares are 150,000,000 shares, representing approximately 31.36% of the total number of shares of the Company. On implementation of the Profit Distribution Plan 2017, the structure of share capital of the Company is: the total number of shares is 621,859,447 shares, of which all are ordinary shares comprising listed domestic shares in the PRC of 426,859,447 shares, representing approximately 68.64% of the total number of shares of the Company, and overseas listed foreign shares of 195,000,000 shares, representing approximately 31.36% of the total number of shares of the Company.	By the Approval Document [2017] No. 459 issued by the China Securities Regulatory Commission, for the year 2017 the Company was allowed to proceed with the non-public issuance of 21,040,591 domestic shares to be listed in the PRC. Upon completion of the issuance, the structure of share capital of the Company is: the total number of shares is 478,353,421 shares, of which all are ordinary shares and listed domestic shares in the PRC are 328,353,421 shares, representing approximately 68.64% of the total number of shares of the Company; overseas listed foreign shares are 150,000,000 shares, representing approximately 31.36% of the total number of shares of the Company. On implementation of the Profit Distribution Plan 2017,the structure of share capital of the Company is: the total number of shares is 621,859,447 shares, of which all are ordinary shares comprising listed domestic shares in the PRC of 426,859,447 shares, representing approximately 68.64% of the total number of shares of the Company, and overseas listed foreign shares of 195,000,000 shares, representing approximately 31.36% of the total number of shares of the Company.

Articles of Association of the Company	
Existing Articles	**Amended Articles**
	Upon approval by way of special resolution in the shareholders' general meeting of the Company, after the first exercise period of the 2018 A-Share Share Option Scheme of the Company, the structure of share capital of the Company is: the total number of issued shares is 627,367,447, of which all are ordinary shares comprising listed domestic shares in the PRC of 432,367,447 shares, representing approximately 68.92% of the total number of issued shares of the Company, and overseas listed foreign shares of 195,000,000 shares, representing approximately 31.08% of the total number of issued shares of the Company.
Article 23 The registered capital of the Company is RMB621,859,447 yuan.	**Article 23** The registered capital of the Company is RMB~~621,859,447~~ 627,367,447 yuan.

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this Circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 30 April 2021 of the property interests held by the Group.

JLL
仲量聯行

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Company Licence No.: C-030171

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公司牌照號碼：C-030171

31 May 2021

The Board of Directors
Shandong Xinhua Pharmaceutical Company Limited
No. 1 Lutai Ave.
Hi-tech Industry Development Zone
Zibo City, Shandong Province
The PRC

Dear Sirs,

Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**" or "**we**") is instructed by Shandong Xinhua Pharmaceutical Company Limited (the ''**Company**'') to provide valuation service on the properties in which the Company and its subsidiaries (hereinafter together referred to as the "**Group**") have interests in the People's Republic of China (the ''**PRC**'') for disclosure purpose.

We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the market values of the property interests as at 30 April 2021 (the ''**valuation date**'').

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Due to the nature of the completed buildings and structures of the property nos. 1 to 5 and 8 to 11 in Group I and the particular location in which they are situated, there are unlikely to be relevant market comparable sales readily available, the property interests have been valued by the cost approach with reference to their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization". It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of the land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

In valuing the construction in progress (the "**CIP**") of property nos. 1, 3 and 8, we have assumed that they will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of values, we have taken into account the construction cost and professional fees relevant to the stage of construction as at the date of valuation.

We have valued the property nos. 6, 7 and 12 to 25 and Part B of property no. 4 in Group I and the property nos. 26 and 29 in Group II by the comparison approach assuming sale of the property interests in their existing states with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the market. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

For the property nos. 27 and 28, we have adopted the income approach in our valuation by taking into account the net rental income of the property derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which has been then capitalized to determine the market value at an appropriate capitalization rate. Where appropriate, reference has also been made to comparable sale transactions as available in the relevant market.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited; Rule 11 of the Code on Takeovers and Mergers and Share Buy-Backs issued by Securities and Futures Commission; the RICS Valuation — Global Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of title documents including State-owned Land Use Rights Certificates, Real Estate Title Certificates and other official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the legal opinion dated 25 May 2021 given by the Company's PRC Legal Advisors – Jingtian & Gongcheng, concerning the validity of the property interests in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties was carried out in May 2021 by 5 technical staffs including Mr. Owen Zhang, Mr. Larry Li, Mr. Elvin Zhang, Mr. Shuo Yang and Ms. Blair Xiong. They have more than 2 years' experience in the valuation of properties in the PRC. Among them, Mr. Owen Zhang is a China Certified Real Estate Appraiser.

All monetary figures stated in this report are in Renminbi (RMB).

We are instructed to provide our opinion of value as per the valuation date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the valuation date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, the outbreak of the Novel Coronavirus (COVID-19) since declared Global Pandemic on 11 March 2020 has caused much disruption to economic activities around the world. As of the report date, China's economy has recovered and most business activities have been back to normal. We also note that market activity and market sentiment in these particular market sectors remains stable. However, we remain cautious due to uncertainty for the pace of global economic recovery in the midst of the outbreak which may have future impact on the real estate market. Therefore, we recommend that you keep the valuation of the properties under frequent review.

Our summary of values and valuation certificates are attached below for your attention.

Pursuant to the relevant rules and regulations of tax laws in the PRC, the potential tax liabilities which would arise if the property interests of the Group specified in this report were to be sold mainly include value added tax (5% of the capital gains for properties purchased before 30 April 2016; 9% of the transaction amount for properties purchased after 30 April 2016), land appreciation tax (30% to 60% of appreciated amount), income tax (25% of the capital gains after deducting the potential tax fee in effecting the sales), and stamp duty (0.05% of the transaction amount). As advised by the Company, they have no intention to sell the properties as those properties are mainly occupied for production. Therefore, the possibility of incurrence of such tax liabilities is very remote.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Senior Director

Note: Eddie T.W. Yiu is a Chartered Surveyor who has 27 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

GROUP I – PROPERTY INTERESTS HELD AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Market value in existing state as at the valuation date *RMB*
1.	Xinhua Pharmaceutical Headquarters Park No. 1 Lutai Road High-tech Zone Zhangdian District Zibo City Shandong Province The PRC	383,320,000 *(note 1)*
2.	Xinhua Pharmaceutical General Factory No. 14 Dongyi Road Zhangdian District Zibo City Shandong Province The PRC	122,410,000 *(note 1)*
3.	Xinhua Pharmaceutical 1st Branch Factory No. 13 Huagong Road Zhangdian District Zibo City Shandong Province The PRC	247,500,000 *(note 1)*
4.	Xinhua Pharmaceutical 2nd Branch Factory No. 229 Changguo East Road Zhangdian District Zibo City Shandong Province The PRC	204,390,000 *(note 1)*

No.	Property	Market value in existing state as at the valuation date *RMB*
5.	Nanding Pharmaceutical Factory located at the middle section of Zhangnan Road Nanding Town Zhangdian District Zibo City Shandong Province The PRC	No commercial value *(note 1)*
6.	A parcel of land located at Nanjiaosong Village Hutian Town Zhangdian District Zibo City Shandong Province The PRC	1,730,000
7.	An apartment building No. 15 Honggou Road Zhangdian District Zibo City Shandong Province The PRC	18,590,000
8.	Gaomi Pharmaceutical Factory No. 6 Gaoxin 2nd Road Xiazhuang Town Gaomi City Shandong Province The PRC	77,860,000 *(note 1)*

No.	Property	Market value in existing state as at the valuation date *RMB*
9.	Shouguang Pharmaceutical Factory located at the southern side of Chayan Road and the western side of Dadi Road Hou Town Shouguang County Weifang City Shandong Province The PRC	335,070,000 *(note 1)*
10.	A dormitory building located at the northern side of Chayan Road and the eastern side of Dajiu Road Hou Town Shouguang County Weifang City Shandong Province The PRC	No commercial value *(note 1)*
11.	3 dormitory buildings, a canteen and a guard room located at the western side of Fengdong Road and the southern side of Jinyuan Road Hou Town Shouguang County Weifang City Shandong Province The PRC	No commercial value *(note 1)*

No.	Property	Market value in existing state as at the valuation date *RMB*
12.	12 residential units of Bincheng Oasis Community No. 99 Haichuan Road Hanting District Weifang City Shandong Province The PRC	4,570,000
13.	A retail unit No. 182 Gongqingtuan West Road Zhangdian District Zibo City Shandong Province The PRC	1,980,000
14.	A retail unit No. 151 A3 Huaguang Road Zhangdian District Zibo City Shandong Province The PRC	2,380,000
15.	Unit 102, Entrance 1 Building No. 45 of Lijingyuan Community No. 40 Beixiwu Road Zhangdian District Zibo City Shandong Province The PRC	1,100,000

No.	Property	Market value in existing state as at the valuation date *RMB*
16.	A commercial building No. 31 Xinhua Road Zhangdian District Zibo City Shandong Province The PRC	27,350,000
17.	A retail unit No. 58 Xingxue Street Zhangdian District Zibo City Shandong Province The PRC	1,150,000
18.	A commercial building No. 16 Zhongxin Road Zhangdian District Zibo City Shandong Province The PRC	22,650,000
19.	A retail unit No. 2634 Zhangbei Road Suozhen Town Huantai County Zibo City Shandong Province The PRC	1,940,000

No.	Property	Market value in existing state as at the valuation date *RMB*
20.	A retail unit No. 597 Zicheng Road Zichuan District Zibo City Shandong Province The PRC	1,890,000
21.	6 apartment units in Building No. 20 of Anhuali Fifth Community located at Waiguanxie Street Chaoyang District Beijing The PRC	52,420,000
22.	6 office units in Zhonglian Building No. 540 Caoyang Road Putuo District Shanghai The PRC	21,090,000
23.	A residential unit in Building No. 7 of No. 88 Zhiquan Section East Street Jinjiang District Chengdu City Sichuan Province The PRC	5,620,000

No.	Property	Market value in existing state as at the valuation date *RMB*
24.	A residential unit in Beiyuan Building No. 12 of Tongjian Dajiangyuan Community No. 20 Jiangda Road Jiang'an District Wuhan City Hubei Province The PRC	3,440,000
25.	A residential unit No. 2 Jingyue Street Xingang West Road Haizhu District Guangzhou City Guangdong Province The PRC	8,520,000
	Sub-total:	**1,546,970,000** *(note 2)*

GROUP II – PROPERTY INTERESTS HELD FOR INVESTMENT BY THE GROUP IN THE PRC

No.	Property	Market value in existing state as at the valuation date *RMB*
26.	An office building No. 138 Aomen Road Shinan District Qingdao City Shandong Province The PRC	54,470,000
27.	2 parcels of land and 5 buildings No. 19 Dongyi Road Zhangdian District Zibo City Shandong Province The PRC	22,550,000
28.	A parcel of land and 4 buildings No. 4 Honggou Road Zhangdian District Zibo City Shandong Province The PRC	9,680,000

No.	Property	Market value in existing state as at the valuation date *RMB*
29.	8 retail units Nos. 142, 144, 146, 148, 150, 152, 154 and 156 Xinhua Road Zichuan District Zibo City Shandong Province The PRC	No commercial value *(note 3)*
	Sub-total:	**86,700,000** *(note 4)*
	Grand total:	**1,633,670,000**

Notes:

1. In our valuation, we have attributed no commercial value to portions of buildings, the CIP and the land parcel in property nos. 1 to 5 and 8 to 11 due to the lack of proper title certificates or construction permits, details of which are set out in the footnotes of each valuation certificate. However, for reference purpose, we are of the opinion that the total depreciated replacement cost of these buildings and CIP (excluding the land element) and the market value of the land parcel as at the valuation date would be RMB739,310,000 and RMB39,500,000 respectively.

2. The amount does not contain the depreciated replacement cost of RMB739,310,000 and the market value for reference of RMB39,500,000 mentioned in note 1.

3. In the valuation of this property, we have attributed no commercial value to the property which has not obtained any proper title certificates. However, for reference purpose, we are of the opinion that the market value of the property in its existing state as at the valuation date would be RMB2,060,000 assuming all relevant title certificate has been obtained and the property could be freely transferred.

4. The amount does not contain the valuation figure of RMB2,060,000 mentioned in note 3.

VALUATION CERTIFICATE

GROUP I – PROPERTY INTERESTS HELD AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
1.	Xinhua Pharmaceutical Headquarters Park No. 1 Lutai Road High-tech Zone Zhangdian District Zibo City Shandong Province The PRC	The property comprises 5 parcels of land with a total site area of approximately 252,425 sq.m., and 24 buildings and various structures erected thereon which were completed in various stages between 2005 and 2020. The buildings have a total gross floor area ("**GFA**") of approximately 169,388.93 sq.m., including 8 workshops, 5 warehouses, 3 office buildings and 8 ancillary rooms. The structures mainly include boundary walls, roads, sewage tanks and ancillary facility rooms. The property also comprises a building which was under construction as at the valuation date (the "**CIP**"). The CIP will be developed into a workshop with a planned GFA of approximately 29,174 sq.m. and it is scheduled to be completed in June 2021. As advised by the Company, the construction cost of the CIP is estimated to be approximately RMB108,990,000, of which approximately RMB63,520,000 had been paid up to the valuation date. The land use rights of 4 parcels of land of the property with a total site area of approximately 210,373 sq.m. have been granted for terms expiring on 20 June 2036, 14 May 2037, 11 December 2064 and 16 October 2069 for industrial use. The land use rights certificate for the remaining parcel of land of the property with a site area of approximately 42,052 sq.m. has not been obtained.	As at the valuation date, the property was mainly occupied by the Group for production and ancillary purposes, except that the CIP was under construction and various office units were rented to a tenant for office purpose.	383,320,000

Notes:

1. Pursuant to a Real Estate Title Certificate – Lu (2019) Zi Bo Gao Xin Qu Bu Dong Chan Quan Di No. 0004874, 2 buildings of the property with a total GFA of approximately 46,079.30 sq.m. are owned by the Company. The relevant land use rights of a parcel of land with a site area of approximately 51,087 sq.m. have been granted to the Company for a term expiring on 11 December 2064 for industrial use.

2. Pursuant to a Real Estate Title Certificate – Lu (2019) Zi Bo Gao Xin Qu Bu Dong Chan Quan Di No. 0000771, 5 buildings of the property with a total GFA of approximately 22,683.43 sq.m. are owned by Shandong Zibo XinCat Pharmaceutical Co., Ltd. ("**XinCat Pharmaceutical**", a wholly-owned subsidiary of the Company). The relevant land use rights of a parcel of land with a site area of approximately 38,780 sq.m. have been granted to XinCat Pharmaceutical for a term expiring on 20 June 2036 for industrial use.

3. Pursuant to a State-owned Land Use Rights Certificate and a Real Estate Title Certificate (for land) – Zi Guo Yong (2009) Di No. F01439 and Lu (2019) Zi Bo Gao Xin Qu Bu Dong Chan Quan Di No. 0008059 respectively, 2 parcels of land of the property with a total site area of approximately 120,506 sq.m. have been granted to the Company for terms expiring on 14 May 2037 and 16 October 2069 for industrial use.

4. For the remaining one parcel of land of the property with a site area of approximately 42,052 sq.m. and the remaining 17 buildings of the property with a total GFA of approximately 100,626.20 sq.m., we have not been provided with any title certificate.

5. Pursuant to a Construction Work Planning Permit – Jian Zi Di No. 370302-2020-02 in favour of the Company, the CIP of the property with a planned GFA of approximately 29,174 sq.m. has been approved for construction.

6. Pursuant to a Construction Work Commencement Permit – No. 370301202002280101 in favour of the Company, permission by the relevant local authority was given to commence the construction of the CIP of the property with a planned GFA of approximately 29,174 sq.m.

7. Pursuant to a Tenancy Agreement, various office units of the property with a total GFA of approximately 16,644 sq.m. were rented to a tenant for a term of 1 year expiring on 31 May 2020 for office use. The annual rental was RMB4,793,470, inclusive of VAT.

   As advised by the Company, although the term of the above Tenancy Agreement has expired and has not been renewed, as at the valuation date, the tenant still rented the property and paid the rent on a semiannual basis according to the above agreement.

8. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:

   a. the Group has legally obtained the land use rights of the 4 parcels of land mentioned in notes 1 to 3 and is entitled to occupy and use the land parcels;

   b. as advised by the Company, the Company is in the process of applying for relevant state-owned land use certificate for the parcel of land mentioned in note 4;

   c. the Group has legally obtained the building ownership rights of the buildings mentioned in notes 1 and 2 and has the legal rights to occupy, use, lease, transfer and dispose of the buildings;

   d. there is no material legal impediment for the Company to apply for relevant procedures or title certificates for the buildings that are without title certificate, and the Company could continue to occupy and use the buildings; and

   e. the Company has obtained the requisite approvals for the CIP in respect of the actual development stage.

9. In the valuation of this property, we have attributed no commercial value to the 17 buildings and the parcel of land which have not obtained any proper title certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 17 buildings (excluding the land element) as at the valuation date would be RMB260,050,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
2.	Xinhua Pharmaceutical General Factory No. 14 Dongyi Road Zhangdian District Zibo City Shandong Province The PRC	The property comprises 4 parcels of land with a total site area of approximately 145,193.28 sq.m., and 34 buildings and various structures erected thereon which were completed in various stages between 1989 and 2017. The buildings have a total gross floor area ("**GFA**") of approximately 58,760.01 sq.m., including 3 workshops, 6 warehouses, 3 office buildings, a dormitory building and 21 ancillary rooms. The structures mainly include boundary walls, roads, sewage tanks and ancillary facility rooms. The land use rights of the property have been held through state-capital-injection or granted for terms expiring on 20 October 2032, 31 December 2045 and 10 August 2055 for industrial use, expiring on 25 October 2050 for commercial use and expiring on 25 October 2080 for residential use.	As at the valuation date, the property was occupied by the Group for production and ancillary purposes.	122,410,000

Notes:

1. Pursuant to 3 State-owned Land Use Rights Certificates – Zi Guo Yong (2001) Zi Di No. A00607, Zi Guo Yong (2005) Zi Di No. A11385 and Zi Guo Yong (2009) Zi Di No. 22941, the land use rights of 3 parcels of land of the property with a total site area of approximately 141,636.98 sq.m. have been held by the Company through state-capital-injection or granted to the Company for terms expiring on 20 October 2032, 31 December 2045 and 10 August 2055 for industrial use.

2. Pursuant to 9 Building Ownership Certificates – Zheng Zhang Dian Qu Zi Di Nos. 01-0010004, 01-0010005, 01-0010007, 01-0010008, 01-0003747, 01-0003748, 01-0062520, 01-0009998 and 01-1152963, 16 buildings of the property with a total GFA of approximately 38,140.25 sq.m. are owned by the Company.

3. Pursuant to 23 Real Estate Title Certificates – Lu (2018) Zi Bo Shi Bu Dong Chan Quan Di Nos. 0001738 to 0001760, the whole units of the dormitory building of the property with a total GFA of approximately 9,328.58 sq.m. is owned by the Company. The relevant land use rights of a parcel of land with a site area of approximately 3,556.30 sq.m. have been granted to the Company for terms expiring on 25 October 2050 for commercial use and 25 October 2080 for residential use.

4. For the remaining 17 buildings of the property with a total GFA of approximately 11,291.18 sq.m., we have not been provided with any title certificate.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:

   a. the Group has legally obtained the land use rights of the 4 parcels of land mentioned in notes 1 and 3 and is entitled to occupy and use the land parcels;

   b. the Group has legally obtained the building ownership rights of the buildings mentioned in notes 2 and 3 and has the legal rights to occupy, use, lease, transfer and dispose of the buildings; and

   c. there is no material legal impediment for the Company to apply for relevant procedures or title certificates for the buildings that are without title certificate, and the Company could continue to occupy and use the buildings.

6. In the valuation of this property, we have attributed no commercial value to the 17 buildings of the property which have not obtained any proper title certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 17 buildings (excluding the land element) as at the valuation date would be RMB12,080,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
3.	Xinhua Pharmaceutical 1st Branch Factory No. 13 Huagong Road Zhangdian District Zibo City Shandong Province The PRC	The property comprises 13 parcels of land with a total site area of approximately 311,892.66 sq.m., and 126 buildings and various structures erected thereon which were completed in various stages between 1990 and 2020. The buildings have a total gross floor area (“**GFA**”) of approximately 110,099.21 sq.m., mainly including workshops, warehouses, office buildings and ancillary rooms. The structures mainly include boundary walls, roads, sewage tanks and ancillary facility rooms. The property also comprises a building which was under construction as at the valuation date (the “**CIP**”). The CIP will be developed into a workshop with a planned GFA of approximately 1,630 sq.m. and it is scheduled to be completed in September 2022. As advised by the Company, the total construction cost of the CIP is estimated to be approximately RMB55,010,000, of which approximately RMB13,370,000 had been paid up to the valuation date. The land use rights of the property have been held through state-capital-injection or granted for terms with the expiry dates between 7 May 2026 and 17 September 2065 for industrial use.	As at the valuation date, the property was occupied by the Group for production and ancillary purposes, except for the CIP which was under construction.	247,500,000

Notes:

1. Pursuant to 11 State-owned Land Use Rights Certificates, the land use rights of 11 parcels of land of the property with a total site area of approximately 295,976.74 sq.m. have been held by the Company through state-capital-injection or granted to the Company, Shandong Xinhua Wanbo Chemical Industry Co., Ltd. ("**Wanbo Chemical**", a wholly-owned subsidiary of the Company) or Zibo Xinhua–Perrigo Pharmaceutical Co., Ltd. ("**Xinhua–Perrigo**", a 50.1% owned subsidiary of the Company) for industrial use, details of which are as follows:

Certificate No.	**Land Use Rights held by**	**Expiry Date**	**Site Area** ***(sq.m.)***
Zi Guo Yong (2001) Zi Di No. F00051	the Company	30 December 2045	14,820.90
Zi Guo Yong (2001) Zi Di No. F00052	the Company	30 December 2045	118,392.24
Zi Guo Yong (2001) Zi Di No. F00063	the Company	27 December 2030	35,885.10
Zi Guo Yong (2008) Di No. F00886	the Company	27 December 2030	8,582.50
Zi Guo Yong (2009) Di No. F01420	the Company	29 June 2057	13,701.00
Zi Guo Yong (2009) Di No. F01421	the Company	30 December 2036	13,047.00
Zi Guo Yong (2009) Di No. F00790	the Company	14 July 2058	21,116.00
Zi Guo Yong (2009) Di No. F00791	Xinhua–Perrigo	3 June 2037	15,851.00
Zi Guo Yong (2011) Di No. F02735	Wanbo Chemical	7 May 2026	32,000.00
Zi Guo Yong (2013) Di No. F01502	the Company	10 January 2063	10,933.00
Zi Guo Yong (2015) Di No. F01238	the Company	6 April 2065	11,648.00
Total:			**295,976.74**

2. Pursuant to 24 Building Ownership Certificates – Zi Bo Shi Fang Quan Zheng Zhang Dian Qu Zi Di Nos. 01-0010027, 01-0010028, 01-0009983 to 01-0009990, 01-0009993, 01-0009994 and Zi Bo Shi Fang Quan Zheng Zi Bo Gao Xin Qu Zi Di Nos. 03-1011546, 03-1011547, 01-1171222 to 01-1171231, 62 buildings of the property with a total GFA of approximately 48,926.66 sq.m. are owned by the Company, Wanbo Chemical or Xinhua–Perrigo.

3. Pursuant to 4 Real Estate Title Certificates – Lu (2018) Zi Bo Shi Bu Dong Chan Quan Nos. 0001591 to 0001594, 4 buildings of the property with a total GFA of approximately 1,355.79 sq.m. are owned by Wanbo Chemical. The relevant land use rights of a parcel of land with a site area of approximately 4,565.50 sq.m. have been granted to Wanbo Chemical for a term expiring on 17 September 2065 for industrial use.

4. Pursuant to a Real Estate Title Certificate – Lu (2019) Zi Bo Gao Xin Qu Bu Dong Chan Quan Di No. 0004475, a building of the property with a GFA of approximately 2,193.10 sq.m. is owned by Shandong Zibo XinCat Pharmaceutical Co., Ltd. ("**XinCat Pharmaceutical**", a wholly-owned subsidiary of the Company). The relevant land use rights of a parcel of land with a site area of approximately 11,350.42 sq.m. have been granted to XinCat Pharmaceutical for a term expiring on 3 December 2063 for industrial use.

5. For the remaining 59 buildings with a total GFA of approximately 57,623.66 sq.m. and the CIP of the property, we have not been provided with any title certificate or construction permits.

6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:

   a. the Group has legally obtained the land use rights of the 13 parcels of land mentioned in notes 1, 3 and 4 and is entitled to occupy and use the land parcels;

   b. the Group has legally obtained the building ownership rights of the buildings mentioned in notes 2 to 4 and has the legal rights to occupy, use, lease, transfer and dispose of the buildings;

   c. there is no material legal impediment for the Company to apply for relevant procedures or title certificates for the buildings that are without title certificate, and the Company could continue to occupy and use the buildings; and

   d. the construction permits for the CIP of the property are in the process of application.

7. In the valuation of this property, we have attributed no commercial value to the 59 buildings and the CIP of the property which have not obtained any proper title certificates or construction permits. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 59 buildings and the CIP (excluding the land element) as at the valuation date would be RMB112,040,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
4.	Xinhua Pharmaceutical 2nd Branch Factory No. 229 Changguo East Road Zhangdian District Zibo City Shandong Province The PRC	The property can be divided into two parts ("**Part A**" and "**Part B**"). Part A comprises 3 parcels of land with a total site area of approximately 235,821 sq.m., and 32 buildings and various structures erected thereon which were completed in various stages between 2012 and 2020. The buildings of Part A have a total gross floor area ("**GFA**") of approximately 110,406.12 sq.m., including 21 workshops, 2 warehouses, an office building and 8 ancillary rooms. The structures mainly include boundary walls, roads, sewage tanks and ancillary facility rooms. The land use rights of Part A have been granted for terms expiring on 23 April 2059, 30 May 2059 and 30 May 2061 for industrial use. Part B comprises a parcel of land with a site area of approximately 92,898.74 sq.m. which was bare land for future development as at the valuation date. The relevant land use rights certificate of Part B has not been obtained.	As at the valuation date, Part A of the property was occupied by the Group for production and ancillary purposes, whilst Part B was bare land for future development.	204,390,000

Notes:

1. Pursuant to 2 State-owned Land Use Rights Certificates – Zi Guo Yong (2012) Di No. A13014 and Zi Guo Yong (2009) Di No. A15408, the land use rights of 2 parcels of land of Part A of the property with a total site area of approximately 62,901 sq.m. have been granted to the Company for terms expiring on 30 May 2059 and 30 May 2061 for industrial use.

2. Pursuant to 4 Real Estate Title Certificates – Lu (2018) Zi Bo Shi Bu Dong Chan Quan Di No. 0013072 and Lu (2020) Zi Bo Shi Bu Dong Chan Quan Di Nos. 0012811 to 0012813, 3 buildings of Part A of the property with a total GFA of approximately 16,708.47 sq.m. are owned by the Company. The relevant land use rights of a parcel of land with a site area of approximately 172,920 sq.m. have been granted to the Company for a term expiring on 23 April 2059 for industrial use.

   For the remaining 29 buildings of Part A of the property with a total GFA of approximately 93,697.65 sq.m., we have not been provided with any title certificate.

3. Pursuant to a State-owned Land Use Rights Grant Contract, the land use rights of Part B of the property with a site area of approximately 92,898.74 sq.m. were contracted to be granted to the Company for a term of 50 years from the land delivery date for industrial use. The total land consideration was RMB39,490,000. As advised by the Group, the land consideration has been fully paid. As advised by the Company, the land use rights certificate of Part B of the property is under application.

4. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as Part B of the property. The unit price of these comparable land sites ranges from RMB400 to RMB430 per sq.m. for industrial use. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:

   a. the Group has legally obtained the land use rights of the 3 parcels of land mentioned in notes 1 and 2 and is entitled to occupy and use the land parcels;

   b. as advised by the Company, the Company is in the process of applying for relevant state-owned land use rights certificate for the parcel of land that is without title certificate;

   c. the Group has legally obtained the building ownership rights of the buildings mentioned in note 2 and has the legal rights to occupy, use, lease, transfer and dispose of the buildings; and

   d. there is no material legal impediment for the Company to apply for relevant procedures or title certificates for the buildings that are without title certificate, and the Company could continue to occupy and use the buildings.

6. In the valuation of this property, we have attributed no commercial value to the 29 buildings of Part A and the land use rights of Part B of the property which have not obtained any proper title certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 29 buildings of Part A (excluding the land element) as at the valuation date would be RMB273,430,000, and the market value of Part B would be RMB39,500,000 assuming all relevant title certificate has been obtained and Part B could be freely transferred.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
5.	Nanding Pharmaceutical Factory located at the middle section of Zhangnan Road Nanding Town Zhangdian District Zibo City Shandong Province The PRC	The property comprises a parcel of land with a site area of approximately 16,254.19 sq.m., and 9 buildings and various structures erected thereon which were completed in 2004. The buildings have a total gross floor area ("**GFA**") of approximately 4,040.84 sq.m., including an office building, a workshop, a warehouse, a dormitory building, a canteen and 4 ancillary rooms. The structures mainly include boundary walls, roads, sewage tanks and bicycle shed. The land use rights term of the property had expired as at the valuation date.	As at the valuation date, the property was occupied by the Group for production and ancillary purposes.	No commercial value

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Zi Guo Yong (2007) Zi Di No. A03406, the land use rights of the property with a site area of approximately 16,254.19 sq.m. have been granted to the Company for a term expiring on 8 August 2017 for industrial use. As advised by the Company, the land use rights of the property have expired and are in the process of renewal.

2. Pursuant to 2 Building Ownership Certificates – Zi Bo Shi Fang Quan Zheng Zhang Dian Qu Zi Di Nos. 01-1025095 and 01-1025096, 9 buildings of the property with a total GFA of approximately 4,040.84 sq.m. are owned by the Company.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:

    a. the expiration and renewal of the land use rights certificate of the property will not have a significant adverse impact on the Company's operations; and

    b. the Group has legally obtained the building ownership rights of the buildings mentioned in note 2 and has the legal rights to occupy, use, lease, transfer and dispose of the buildings.

4. In the valuation of this property, we have attributed no commercial value to the property due to expiration of the term of the land use rights. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 9 buildings and structures of the property (excluding the land element) as at the valuation date would be RMB8,170,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
6.	A parcel of land located at Nanjiaosong Village Hutian Town Zhangdian District Zibo City Shandong Province The PRC	The property comprises a parcel of land with a site area of approximately 5,134.64 sq.m. The buildings and structures erected thereon have been scrapped. The land use rights of the property have been held through state-capital-injection for a term expiring on 6 March 2046 for industrial use.	As at the valuation date, the property was vacant for future development.	1,730,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Zi Guo Yong (2001) Zi Di No. A00668, the land use rights of the property with a site area of approximately 5,134.64 sq.m. have been held by the Company through state-capital-injection for a term expiring on 6 March 2046 for industrial use.

2. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable land sites ranges from RMB330 to RMB420 per sq.m. for industrial use. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Company has legally obtained the land use rights of the property and is entitled to occupy and use the land parcel.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
7.	An apartment building No. 15 Honggou Road Zhangdian District Zibo City Shandong Province The PRC	The property comprises an 11-storey apartment building which was completed in 2009. The building has a gross floor area ("**GFA**") of approximately 4,446.42 sq.m. The land use rights of the property have been granted for a term expiring on 5 January 2051 for commercial use.	As at the valuation date, the property was occupied by the Group for apartment purpose.	18,590,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Zi Guo Yong (2011) Zi Di No. A03239, the land use rights of the property with a site area of approximately 3,791.40 sq.m. have been granted to the Company for a term expiring on 5 January 2051 for commercial use.

2. Pursuant to a Building Ownership Certificate – Zi Bo Shi Fang Quan Zheng Zhang Dian Qu Zi Di No. 01-1137228, the property with a GFA of approximately 4,446.42 sq.m. is owned by the Company.

3. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB4,000 to RMB5,000 per sq.m. for apartment units. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:

   a. the Group has legally obtained the land use rights of the parcel of land mentioned in note 1 and is entitled to occupy and use the land parcel; and

   b. the Group has legally obtained the building ownership rights of the property mentioned in note 2 and has the legal rights to occupy, use, lease, transfer and dispose of the building.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
8.	Gaomi Pharmaceutical Factory No. 6 Gaoxin 2nd Road Xiazhuang Town Gaomi City Shandong Province The PRC	The property comprises 3 parcels of land with a total site area of approximately 54,396 sq.m., and 7 buildings and various structures erected thereon which were completed in 2016. The buildings have a total gross floor area ("**GFA**") of approximately 9,789.42 sq.m., including a workshop, a warehouse, a canteen, 2 guard rooms and 2 ancillary rooms. The structures mainly include boundary walls, roads, landscape greening and ancillary facility rooms. The property also comprises 2 buildings which were under construction as at the valuation date (the "CIP"). The CIP will be developed into a workshop and a warehouse with a total planned GFA of approximately 10,455 sq.m. and they are scheduled to be completed in June 2021. As advised by the Company, the total construction cost of the CIP is estimated to be approximately RMB31,560,000, of which approximately RMB23,690,000 had been paid up to the valuation date. The land use rights of the property have been granted for a term expiring on 15 May 2064 for industrial use.	As at the valuation date, the property was occupied by the Group for production and ancillary purposes, except for the CIP which was under construction.	77,860,000

Notes:

1. Pursuant to 3 State-owned Land Use Rights Grant Contracts, the land use rights of 3 parcels of land with a total site area of approximately 54,396 sq.m. were contracted to be granted to Xinhua Pharmaceutical (Gaomi) Co., Ltd. ("**Gaomi Company**", a wholly-owned subsidiary of the Company) for a term expiring on 15 May 2064 for industrial use. The total land consideration was RMB18,870,000. As advised by the Group, the land consideration has been fully paid.

2. Pursuant to 2 Real Estate Title Certificates (for land) – Lu (2019) Gao Mi Shi Bu Dong Chan Quan Di Nos. 0000574 and 0000575, the land use rights of 2 parcels of land with a total site area of approximately 34,396 sq.m. have been granted to Gaomi Company for a term expiring on 15 May 2064 for industrial use.

3. Pursuant to a Real Estate Title Certificate – Lu (2020) Gao Mi Shi Bu Dong Chan Quan Di No. 0019625, 2 buildings of the property with a total GFA of approximately 9,278.99 sq.m. are owned by Gaomi Company. The relevant land use rights of a parcel of land with a site area of approximately 20,000 sq.m. have been granted to Gaomi Company for a term expiring on 15 May 2064 for industrial use.

   For the remaining 5 buildings of the property with a total GFA of approximately 510.43 sq.m., we have not been provided with any title certificate.

4. Pursuant to a Construction Work Planning Permit – Jian Zi Di No. 370785201900274 in favour of Gaomi Company, the CIP of the property with a total planned GFA of approximately 10,455 sq.m. has been approved for construction.

5. Pursuant to a Construction Work Commencement Permit – No. 370785201909250101, in favour of Gaomi Company, permission by the relevant local authority was given to commence the construction of the CIP of the property with a total planned GFA of approximately 10,455 sq.m.

6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:

   a. the Group has legally obtained the land use rights of the 3 parcels of land mentioned in notes 2 and 3 and is entitled to occupy and use the land parcels;

   b. the Group has legally obtained the building ownership rights of the buildings mentioned in note 3 and has the legal rights to occupy, use, lease, transfer and dispose of the buildings;

   c. there is no material legal impediment for Gaomi Company to apply for relevant procedures or title certificates for the buildings that are without title certificate, and Gaomi Company could continue to occupy and use the buildings; and

   d. Gaomi Company has obtained the requisite approvals for the CIP in respect of the actual development stage.

7. In the valuation of this property, we have attributed no commercial value to the 5 buildings of the property which have not obtained any proper title certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 5 buildings (excluding the land element) as at the valuation date would be RMB670,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
9.	Shouguang Pharmaceutical Factory located at the southern side of Chayan Road and the western side of Dadi Road Hou Town Shouguang County Weifang City Shandong Province The PRC	The property comprises 4 parcels of land with a total site area of approximately 775,702 sq.m., and 38 buildings and various structures erected thereon which were completed in various stages between 2009 and 2021. The buildings have a total gross floor area ("**GFA**") of approximately 58,026.98 sq.m., including 24 workshops, 5 warehouses, 3 office rooms, a canteen and 5 ancillary rooms. The structures mainly include boundary walls, roads, sewage tanks and ancillary facility rooms. The land use rights of the property have been granted for terms expiring on 14 March 2060, 31 January 2063, 23 May 2067 and 1 April 2069 for industrial use.	As at the valuation date, the property was occupied by the Group for production and ancillary purposes.	335,070,000

Notes:

1. Pursuant to 4 State-owned Land Use Rights Grant Contracts, the land use rights of 4 parcels of land with a total site area of approximately 775,702 sq.m. were contracted to be granted to Xinhua Pharmaceutical (Shouguang) Co., Ltd. ("**Shouguang Company**", a wholly-owned subsidiary of the Company) for a term of 50 years for industrial use. The total land consideration was RMB166,180,000. As advised by the Group, the land consideration has been fully paid.

2. Pursuant to 2 State-owned Land Use Rights Certificates and 2 Real Estate Title Certificates (for land) – Shou Guo Yong (2010) Di No. 0077, Shou Guo Yong (2013) Di No. 00202, Lu (2017) Shou Guang Shi Bu Dong Chan Quan Di No. 0027535 and Lu (2019) Shou Guang Shi Bu Dong Chan Quan Di No. 0025934, the land use rights of the property with a total site area of approximately 775,702 sq.m. have been granted to Shouguang Company for terms expiring on 14 March 2060, 31 January 2063, 23 May 2067 and 1 April 2069 for industrial use.

3. Pursuant to 7 Building Ownership Certificates – Shou Fang Quan Zheng Hou Zhen Zi Di Nos. 2016244459, 2016244461, 2016244463, 2016244465, 2016244467, 2016244472 and 2016244474, 5 buildings of the property with a total GFA of approximately 9,250.24 sq.m. are owned by Shouguang Company.

   For the remaining 33 buildings of the property with a total GFA of approximately 48,776.74 sq.m., we have not been provided with any title certificate.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:

   a. the Group has legally obtained the land use rights of the 4 parcels of land mentioned in note 2 and is entitled to occupy and use the land parcels;

   b. the Group has legally obtained the building ownership rights of the buildings mentioned in note 3 and has the legal rights to occupy, use, lease, transfer and dispose of the buildings;

   c. there is no material legal impediment for Shouguang Company to apply for relevant procedures or title certificates for the buildings that are without title certificate, and Shouguang Company could continue to occupy and use the buildings.

5. In the valuation of this property, we have attributed no commercial value to the 33 buildings of the property which have not obtained any proper title certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 33 buildings (excluding the land element) as at the valuation date would be RMB60,500,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
10.	A dormitory building located at the northern side of Chayan Road and the eastern side of Dajiu Road Hou Town Shouguang County Weifang City Shandong Province The PRC	The property comprises a 4-storey dormitory building erected on a parcel of land which is not owned by the Group. The property was completed in 2009. As advised by the Group, the property has a gross floor area ("**GFA**") of approximately 4,096 sq.m. The property was under renovation as at the valuation date, and it is scheduled to be completed in June 2021. As advised by the Company, the total renovation cost is estimated to be approximately RMB4,000,000, of which RMB200,000 has been paid up to the valuation date.	As at the valuation date, the property was under renovation.	No commercial value

Notes:

1. For the property, we have not been provided with any title certificate.

2. Pursuant to a Construction Agreement, the property (for building only) with a GFA of approximately 4,096 sq.m. is owned by the Group and the relevant land use rights of a parcel of land of which the property is erected thereon are owned by a third party. In the course of our valuation, the land parcel of which the building is erected thereon is excluded from the scope of our valuation.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Group has no major illegal activities in housing construction and had not been punished for violating relevant laws and regulations.

4. In the valuation of this property, we have attributed no commercial value to the property which has not obtained any proper title certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the property (excluding the land element) at the valuation date would be RMB3,180,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
11.	3 dormitory buildings, a canteen and a guard room located at the western side of Fengdong Road and the southern side of Jinyuan Road Hou Town Shouguang County Weifang City Shandong Province The PRC	The property comprises two 4-storey dormitory buildings, a 5-storey dormitory building, a canteen and a guard room erected on a parcel of land which is not owned by the Group. The property was completed in 2011 and 2021. As advised by the Group, the property has a total gross floor area ("**GFA**") of approximately 10,513.17 sq.m.	As at the valuation date, the property was occupied by the Group for dormitory and ancillary purposes.	No commercial value

Notes:

1. For the property, we have not been provided with any title certificate.

2. Pursuant to 2 Construction Agreements, portion of the property (for 2 buildings only) with a total GFA of approximately 6,299.69 sq.m. is owned by Shouguang Company and the relevant land use rights of a parcel of land of which the property is erected thereon are owned by a third party. In the course of our valuation, the land parcel of which the 5 buildings are erected thereon is excluded from the scope of our valuation.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Group has no major illegal activities in housing construction and had not been punished for violating relevant laws and regulations.

4. In the valuation of this property, we have attributed no commercial value to the property which has not obtained any proper title certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the property (excluding the land element) at the valuation date would be RMB9,190,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
12.	12 residential units of Bincheng Oasis Community No. 99 Haichuan Road Hanting District Weifang City Shandong Province The PRC	The property comprises 12 residential units in a residential building of Bincheng Oasis Community, which was completed in 2014. The units have a total gross floor area ("**GFA**") of approximately 1,143.37 sq.m. The land use rights of the property have been granted for a term expiring on 2 November 2080 for residential use.	As at the valuation date, the property was occupied by the Group for residential purpose.	4,570,000

Notes:

1. Pursuant to 12 Real Estate Title Certificates – Wei Fang Quan Zheng Bin Hai Zi Di Nos. 00298907, 00298911, 00298918, 00298920, 00298921, 00298927, 00299685, 00299686 and 00299688 to 00299691, 12 units of the property (Unit nos. 21-2-501, 21-3-201, 27-2-101, 27-2-201, 27-2-301, 27-2-401, 27-3-101, 27-3-102, 27-3-201, 27-3-202, 27-3-401 and 27-3-501) with a total GFA of approximately 1,143.37 sq.m. are owned by Xinhua Pharmaceutical (Shouguang) Co., Ltd. ("**Shouguang Company**", a wholly-owned subsidiary of the Company). The relevant land use rights of the property have been granted to Shouguang Company for a term expiring on 2 November 2080 for residential use.

2. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB3,800 to RMB4,200 per sq.m. for residential units. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Group has legally obtained the building ownership rights of the property and has the legal rights to occupy, use, lease, transfer and dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
13.	A retail unit No. 182 Gongqingtuan West Road Zhangdian District Zibo City Shandong Province The PRC	The property comprises a retail unit on the first and second floor of a 12-storey building, which was completed in 2010. The property has a gross floor area ("**GFA**") of approximately 208.55 sq.m.	As at the valuation date, the property was occupied by the Group for retail purpose.	1,980,000

Notes:

1. Pursuant to a Building Ownership Certificate – Zi Bo Shi Fang Quan Zheng Zhang Dian Qu Zi Di No. 02-1100582, the property with a GFA of approximately 208.55 sq.m. is owned by the Company.

2. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB9,000 to RMB12,000 per sq.m. for retail units on the first floor. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Group has legally obtained the building ownership rights of the property and has the legal rights to occupy, use, lease, transfer and dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
14.	A retail unit No. 151 A3 Huaguang Road Zhangdian District Zibo City Shandong Province The PRC	The property comprises a retail unit on the first and second floor of a 15-storey building, which was completed in 2008. The property has a gross floor area ("**GFA**") of approximately 250.40 sq.m.	As at the valuation date, the property was occupied by the Group for retail purpose.	2,380,000

Notes:

1. Pursuant to a Building Ownership Certificate – Zi Bo Shi Fang Quan Zheng Zhang Dian Qu Zi Di No. 02-1034369, the property with a GFA of approximately 250.40 sq.m. is owned by the Company.

2. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB9,000 to RMB12,000 per sq.m. for retail units on the first floor. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Group has legally obtained the building ownership rights of the property and has the legal rights to occupy, use, lease, transfer and dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
15.	Unit 102, Entrance 1 Building No. 45 of Lijingyuan Community No. 40 Beixiwu Road Zhangdian District Zibo City Shandong Province The PRC	The property comprises a residential unit on the first floor of a 6-storey residential building, which was completed in 2002. The property has a gross floor area ("**GFA**") of approximately 155.63 sq.m.	As at the valuation date, the property was occupied by the Group for residential purpose.	1,100,000

Notes:

1. Pursuant to a Real Estate Title Certificate – Zi Bo Shi Fang Quan Zheng Zhang Dian Qu Zi Di No. 01-1057971, the property with a GFA of approximately 155.63 sq.m. is owned by the Company.

2. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB7,000 to RMB8,000 per sq.m. for residential units. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Group has legally obtained the building ownership rights of the property and has the legal rights to occupy, use, lease, transfer and dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
16.	A commercial building No. 31 Xinhua Road Zhangdian District Zibo City Shandong Province The PRC	The property comprises a 5-storey commercial building, which was completed in 2008. The property has a gross floor area ("**GFA**") of approximately 3,598.07 sq.m.	As at the valuation date, the property was occupied by the Group for retail purpose.	27,350,000

Notes:

1. Pursuant to a Building Ownership Certificate – Zi Bo Shi Fang Quan Zheng Zhang Dian Qu Zi Di No. 08-1303892, the property with a GFA of approximately 3,598.07 sq.m. is owned by the Company.

2. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB9,000 to RMB17,000 per sq.m. for retail units on the first floor. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Group has legally obtained the building ownership rights of the property and has the legal rights to occupy, use, lease, transfer and dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
17.	A retail unit No. 58 Xingxue Street Zhangdian District Zibo City Shandong Province The PRC	The property comprises a retail unit on the first floor of a 5-storey building, which was completed in 2009. The property has a gross floor area ("**GFA**") of approximately 120.84 sq.m.	As at the valuation date, the property was occupied by the Group for retail purpose.	1,150,000

Notes:

1. Pursuant to Building Ownership Certificate – Zi Bo Shi Fang Quan Zheng Zhang Dian Qu Zi Di No. 01-1108262, the property with a GFA of approximately 120.84 sq.m. is owned by the Company.

2. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB8,800 to RMB10,000 per sq.m. for retail units on the first floor. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Group has legally obtained the building ownership rights of the property and has the legal rights to occupy, use, lease, transfer and dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
18.	A commercial building No. 16 Zhongxin Road Zhangdian District Zibo City Shandong Province The PRC	The property comprises a 5-storey commercial building, which was completed in 1997. The property has a gross floor area ("**GFA**") of approximately 2,979.84 sq.m.	As at the valuation date, the property was occupied by the Group for retail purpose.	22,650,000

Notes:

1. Pursuant to a Building Ownership Certificate – Zi Bo Shi Fang Quan Zheng Zhang Dian Qu Zi Di No. 01-0009992, the property with a GFA of approximately 2,979.84 sq.m. is owned by the Company.

2. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB9,000 to RMB12,000 per sq.m. for retail units on the first floor. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Group has legally obtained the building ownership rights of the property and has the legal rights to occupy, use, lease, transfer and dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
19.	A retail unit No. 2634 Zhangbei Road Suozhen Town Huantai County Zibo City Shandong Province The PRC	The property comprises a retail unit on the first and second floor of a 7-storey building, which was completed in 2008. The property has a gross floor area ("**GFA**") of approximately 245.41 sq.m.	As at the valuation date, the property was occupied by the Group for retail purpose.	1,940,000

Notes:

1. Pursuant to a Building Ownership Certificate – Huan Tai Xian Fang Quan Zheng Suo Zhen Zhen Zi Di No. 08-1800936, the property with a GFA of approximately 245.41 sq.m. is owned by the Company.

2. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB8,500 to RMB9,500 per sq.m. for retail units on the first floor. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Group has legally obtained the building ownership rights of the property and has the legal rights to occupy, use, lease, transfer and dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
20.	A retail unit No. 597 Zicheng Road Zichuan District Zibo City Shandong Province The PRC	The property comprises a retail unit on the first and second floor of a 3-storey building, which was completed in 2008. The property has a gross floor area ("**GFA**") of approximately 233.78 sq.m.	As at the valuation date, the property was occupied by the Group for retail purpose.	1,890,000

Notes:

1. Pursuant to a Building Ownership Certificate – Zi Bo Shi Fang Quan Zheng Zi Chuan Qu Zi Di No. 04-1012028, the property with a GFA of approximately 233.78 sq.m. is owned by the Company.

2. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB8,500 to RMB9,600 per sq.m. for retail units on the first floor. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Group has legally obtained the building ownership rights of the property and has the legal rights to occupy, use, lease, transfer and dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
21.	6 apartment units in Building No. 20 of Anhuali Fifth Community located at Waiguanxie Street Chaoyang District Beijing The PRC	The property comprises 6 apartment units on the eleventh floor of a 15-storey apartment building, which was completed in 1998. The property has a total gross floor area (“**GFA**”) of approximately 703 sq.m.	As at the valuation date, the property was occupied by the Group for office purpose.	52,420,000

Notes:

1. Pursuant to 6 Real Estate Title Certificates – Jing (2017) Chao Bu Dong Chan Quan Di Nos. 0046838, 0046840, 0046847, 0046851, 0046858 and 0046862, 6 apartment units of the property (Unit nos. 1101 to 1106) with a total GFA of approximately 703 sq.m. is owned by the Company.

2. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB74,000 to RMB84,000 per sq.m. for apartment units. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

3. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisors that the Group has legally obtained the building ownership rights of the property and has the legal rights to occupy, use, lease, transfer and dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
22.	6 office units in Zhonglian Building No. 540 Caoyang Road Putuo District Shanghai The PRC	The property comprises 6 office units on the ninth floor of a 30-storey office building, which was completed in 1992. The property has a total gross floor area ("**GFA**") of approximately 849.59 sq.m.	As at the valuation date, the property was occupied by the Group for office purpose.	21,090,000

Notes:

1. Pursuant to 4 Real Estate Title Certificates – Hu Fang Di Pu Zi (1997) Di No. 000857 and Hu Fang Di Pu Zi (2002) Di Nos. 021844, 021211 and 023073, 6 office units of the property (Unit nos. 902 to 904 and 907 to 909) with a total GFA of approximately 849.59 sq.m. are owned by the Company or Shandong Zibo XinCat Pharmaceutical Co., Ltd. ("**XinCat Pharmaceutical**", a wholly-owned subsidiary of the Company).

2. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB24,000 to RMB29,000 per sq.m. for office units. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Group has legally obtained the building ownership rights of the property and has the legal rights to occupy, use, lease, transfer and dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
23.	A residential unit in Building 7 No. of No. 88 Zhiquan Section East Street Jinjiang District Chengdu City Sichuan Province The PRC	The property comprises a residential unit on the sixteenth floor of a 37-storey residential building, which was completed in 2011. The property has a gross floor area ("**GFA**") of approximately 158.44 sq.m. The land use rights of the property have been granted for a term expiring on 9 August 2075 for residential use.	As at the valuation date, the property was occupied by the Group for office purpose.	5,620,000

Notes:

1. Pursuant to a Real Estate Title Certificate – Chuan (2019) Cheng Du Shi Bu Dong Chan Quan Di No. 0502051, the property (Unit 7-1-1601) with a GFA of approximately 158.44 sq.m. is owned by Shandong Zibo XinCat Pharmaceutical Co., Ltd. ("**XinCat Pharmaceutical**", a wholly-owned subsidiary of the Company). The relevant land use rights of the property have been granted for a term expiring on 9 August 2075 for residential use.

2. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB33,000 to RMB39,000 per sq.m. for residential units. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Group has legally obtained the building ownership rights of the property and has the legal rights to occupy, use, lease, transfer and dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
24.	A residential unit in Beiyuan Building No. 12 of Tongjian Dajiangyuan Community No. 20 Jiangda Road Jiang'an District Wuhan City Hubei Province The PRC	The property comprises a residential unit on the fifth floor of an 18-storey residential building, which was completed in 2005. The property has a gross floor area ("**GFA**") of approximately 152.98 sq.m. The land use rights of the property have been granted for a term expiring on 16 May 2072 for residential use.	As at the valuation date, the property was occupied by the Group for office purpose.	3,440,000

Notes:

1. Pursuant to a Building Ownership Certificate – Wu Fang Quan Zheng Shi Zi Di No. 200527121, the property (Unit 12-504) with a GFA of approximately 152.98 sq.m. is owned by Shandong Zibo XinCat Pharmaceutical Co., Ltd. ("**XinCat Pharmaceutical**", a wholly-owned subsidiary of the Company).

2. Pursuant to a State-owned Land Use Rights Certificate – An Guo Yong Shang (2006) Di No. 3865, the land use rights of the property with an apportioned site area of approximately 14.64 sq.m. have been granted to XinCat Pharmaceutical for a term expiring on 16 May 2072 for residential use.

3. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB20,000 to RMB27,000 per sq.m. for residential units. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:

   a. the Group has legally obtained the land use rights of the property mentioned in note 2; and

   b. the Group has legally obtained the building ownership rights of the property mentioned in note 1 and has the legal rights to occupy, use, lease, transfer and dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
25.	A residential unit No. 2 Jingyue Street Xingang West Road Haizhu District Guangzhou City Guangdong Province The PRC	The property comprises a residential unit on the thirteenth floor of a 19-storey residential building, which was completed in 2003. The property has a gross floor area ("**GFA**") of approximately 134.1738 sq.m. The land use rights of the property have been granted for a term expiring on 22 January 2072 for composite use.	As at the valuation date, the property was occupied by the Group for office purpose.	8,520,000

Notes:

1. Pursuant to a Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. C3608640, the property (Unit 1305) with a GFA of approximately 134.1738 sq.m. is owned by Shandong Zibo XinCat Pharmaceutical Co., Ltd. ("**XinCat Pharmaceutical**", a wholly-owned subsidiary of the Company). The relevant land use rights of the property have been granted for a term expiring on 22 January 2072 for composite use.

2. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB63,000 to RMB67,000 per sq.m. for residential units. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Group has legally obtained the building ownership rights of the property and has the legal rights to occupy, use, lease, transfer and dispose of the property.

VALUATION CERTIFICATE

GROUP II – PROPERTY INTERESTS HELD FOR INVESTMENT BY THE GROUP IN THE PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
26.	An office building No. 138 Aomen Road Shinan District Qingdao City Shandong Province The PRC	The property comprises a 4-storey office building, which was completed in 2002. The property has a gross floor area ("**GFA**") of approximately 1,806.19 sq.m.	As at the valuation date, the property was rented to a tenant for hotel and ancillary purposes.	54,470,000

Notes:

1. Pursuant to a Real Estate Title Certificate – Qing Fang Di Quan Shi Zi Di No. 90219, the property with a GFA of approximately 1,806.19 sq.m. is owned by the Company.

2. Pursuant to a Tenancy Agreement, the property was rented to a tenant for a term of 7 years expiring on 30 September 2026 for hotel and ancillary uses. The annual rental was RMB1,450,000 for the first three years, RMB1,550,000 for the second three years and RMB1,650,000 for the seventh year, inclusive of VAT.

3. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB29,000 to RMB34,000 per sq.m. for office units. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that the Group has legally obtained the building ownership rights of the property and has the legal rights to occupy, use, lease, transfer and dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
27.	2 parcels of land and 5 buildings No. 19 Dongyi Road Zhangdian District Zibo City Shandong Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 9,131.57 sq.m., and 5 buildings erected thereon which were completed in various stages between 1990 and 2008. The buildings have a total gross floor area ("**GFA**") of approximately 11,160.33 sq.m., including 2 office buildings, a garage and 2 ancillary rooms. The land use rights of the property have been granted for terms expiring on 6 March 2046 and 25 October 2060 for industrial use.	As at the valuation date, the property was rented to a tenant for hospital purpose.	22,550,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Zi Guo Yong (1999) Zi Di No. A00086, the land use rights of a parcel of land with a site area of approximately 6,215.60 sq.m. have been granted to the Company for a term expiring on 6 March 2046 for industrial use.

2. Pursuant to a Building Ownership Certificate – Zi Bo Shi Fang Quan Zheng Zhang Dian Qu Zi Di No. 01-0003723, 4 buildings of the property with a total GFA of approximately 6,451.62 sq.m. are owned by the Company.

3. Pursuant to a Real Estate Title Certificate - Lu (2018) Zi Bo Shi Bu Dong Chan Quan Di No. 0008140, a building of the property with a GFA of approximately 4,708.71 sq.m. is owned by the Company. The relevant land use rights of a parcel of land with a site area of approximately 2,915.97 sq.m. have been granted to the Company for a term expiring on 25 October 2060 for industrial use.

4. Pursuant to a Tenancy Agreement, the property was rented to a tenant for a term of 16 years expiring on 31 December 2032 for hospital use. The annual rental was RMB1,610,000, inclusive of VAT.

5. Our valuation has been made on the following basis and analysis:

   a. we have considered the actual rents in the existing tenancy agreement and also compared with similar properties located in the same business circle and/or nearby within reasonable walking distance. We adopted market rent when calculating the reversionary rental income after the expiry of the existing lease for occupied area;

   b. the monthly unit rents of the comparable properties are in the range of RMB12 to RMB15 per sq.m. for office units, exclusive of VAT and management fees. Appropriate adjustments and analysis are considered to the differences in location, decoration and other characters between the comparable properties and the properties to arrive at the average market rent; and

   c. based on our research, the stabilized market yield of similar properties is in the range of 6% to 7% as at the valuation date. Considering the location and characteristics of the property, we have applied a market yield of 7% in our valuation.

6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:

   a. the Group has legally obtained the land use rights of the 2 parcels of land mentioned in notes 1 and 3 and is entitled to occupy and use the land parcels; and

   b. the Group has legally obtained the building ownership rights of the buildings mentioned in notes 2 and 3 and has the legal rights to occupy, use, lease, transfer and dispose of the buildings.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
28.	A parcel of land and 4 buildings No. 4 Honggou Road Zhangdian District Zibo City Shandong Province The PRC	The property comprises a parcel of land with a site area of approximately 4,425.32 sq.m., and two 4-storey medical buildings, a single-storey medical building and a 3-storey ancillary building erected thereon which were completed in 2000. The buildings have a total gross floor area ("**GFA**") of approximately 5,727.06 sq.m. The land use rights of the property have been granted for a term expiring on 10 August 2035 for medical use.	As at the valuation date, the ancillary building of the property was rented to a tenant for dormitory purpose, whilst the remaining portion of the property was vacant.	9,680,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Zi Guo Yong (2015) Di No. A19872, the land use rights of a parcel of land with a site area of approximately 4,425.32 sq.m. have been granted to the Company for a term expiring on 10 August 2035 for medical use.

2. Pursuant to 4 Building Ownership Certificates – Zi Bo Shi Fang Quan Zheng Zhang Dian Qu Zi Di Nos. 01-1298607, 01-1298608, 01-1298609 and 01-1298611, 4 buildings of the property with a total GFA of approximately 5,727.06 sq.m. are owned by the Company. The permitted uses of these buildings are medical, hospital, office and other uses.

3. Pursuant to a Tenancy Agreement, the ancillary building of the property with a GFA of approximately 870.21 sq.m. was rented to a tenant for a term of 1 year expiring on 31 December 2021 for dormitory use. The annual rental was RMB200,000, inclusive of VAT.

4. Our valuation has been made on the following basis and analysis:

   a. we have considered the actual rents in the existing tenancy agreement and also compared with similar properties located in the same business circle and/or nearby within reasonable walking distance. We adopted market rent when calculating (i) the reversionary rental income after the expiry of the existing lease for occupied area, and (ii) the rental income of vacant area;

   b. the monthly unit rents of the comparable properties are in the range of RMB17 to RMB21 per sq.m. for office units, exclusive of VAT and management fees. Appropriate adjustments and analysis are considered to the differences in location, decoration and other characters between the comparable properties and the properties to arrive at the average market rent; and

   c. based on our research, the stabilized market yield of similar properties is in the range of 6% to 7% as at the valuation date. Considering the location and characteristics of the property, we have applied a market yield of 7% in our valuation.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:

   a. the Group has legally obtained the land use rights of the parcel of land mentioned in note 1 and is entitled to occupy and use the land parcel; and

   b. the Group has legally obtained the building ownership rights of the buildings mentioned in note 2 and has the legal rights to occupy, use, lease, transfer and dispose of the buildings.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *RMB*
29.	8 retail units Nos. 142, 144, 146, 148, 150, 152, 154 and 156 Xinhua Road Zichuan District Zibo City Shandong Province The PRC	The property comprises 8 single-storey retail units, which were completed in 2003. As advised by the Group, the property has a total gross floor area ("**GFA**") of approximately 218.32 sq.m.	As at the valuation date, the property was rented to various tenants for retail purpose.	No commercial value

Notes:

1. For this property, we have not been provided with any title certificate.

2. Pursuant to 5 Tenancy Agreements, the property with a total lettable area of approximately 218.32 sq.m. was rented to various tenants with the expiry dates between 9 October 2021 and 15 January 2022 for retail use. As at the valuation date, the the total annual rent was RMB63,100, inclusive of VAT.

3. In our valuation, we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB9,000 to RMB11,800 per sq.m. for retail units. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit rate for the property.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors that there is no material legal impediment for the Company to apply for relevant procedures or title certificates for the buildings of the property, and the Company could continue to occupy and use the buildings.

5. In the valuation of this property, we have attributed no commercial value to the property which has not obtained any proper title certificates. However, for reference purpose, we are of the opinion that the market value of the property in its existing state as at the valuation date would be RMB2,060,000 assuming all relevant title certificates have been obtained and the property could be freely transferred.

1. FINANCIAL INFORMATION OF THE GROUP

I. Financial Summary

Set out below is a summary of the consolidated financial information of the Group for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020, and for the three months ended 31 March 2020 and 31 March 2021. The figures for the years ended 31 December 2018, 31 December 2019 and 31 December 2020 are extracted from the annual report of the Company for the year ended 31 December 2018, 31 December 2019 and 31 December 2020, and the figures for the three months ended 2020 and 2021 are extracted from the quarterly results for the three months ended 31 March 2020 and 31 March 2021.

The auditors' reports issued by the auditors of the Company, ShineWing Certified Public Accountants (special general partnership), in respect of the audited consolidated financial statements of the Group for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020 did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

	For the three months ended 31 March (Unaudited)		For the year ended 31 December (Audited)		
	2021	**2020**	**2020**	**2019**	**2018**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
I. Gross Revenue (Including operating revenue)	1,768,119,883.04	1,705,982,914.01	6,005,586,643.46	5,606,020,863.30	5,244,643,562.09
II. Total profits	129,187,925.43	114,647,500.02	411,637,980.75	381,392,620.93	332,327,503.82
Less: Income tax expenses	23,512,136.43	21,164,263.83	64,524,696.58	58,276,863.40	51,900,683.50
III. Net profits	105,675,789.00	93,483,236.19	347,113,284.17	323,115,757.53	280,426,820.32
(I) Classified by operating continuity					
1. Net profit from continued operations	105,675,789.00	93,483,236.19	347,113,284.17	323,115,757.53	280,426,820.32
2. Net profit from discontinued operations	–	–	–	–	–
(II) Classified by ownership					
1. Net profit attributable to shareholders of parent company	100,276,326.14	86,286,544.27	324,859,557.55	299,966,265.71	255,314,454.86
2. Minority interest	5,399,462.86	7,196,691.92	22,253,726.62	23,149,491.82	25,112,365.46

	For the three months ended 31 March (Unaudited)		For the year ended 31 December (Audited)		
	2021	**2020**	**2020**	**2019**	**2018**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
IV. Other comprehensive income net of tax	790,288.84	-43,485,988.58	-8,399,441.03	39,484,025.47	-56,384,297.50
Other comprehensive income (net of tax) attributable to the owners of parent company	874,501.80	-43,630,963.67	-7,837,445.75	39,363,799.55	-56,740,335.03
(I) Other comprehensive income not subject to reclassification to profit or loss	903,570.04	-44,168,570.40	-5,654,268.00	38,874,688.80	-58,141,754.40
1. Change in fair value of other equity instrument investments	903,570.04	-44,168,570.40	-5,654,268.00	38,874,688.80	-58,141,754.40
(II) Other comprehensive income to be reclassified into profit or loss	-29,068.60	537,606.73	-2,183,177.75	489,110.75	1,401,419.37
1. Conversion difference of foreign currency statement	-29,068.60	537,606.73	-2,183,177.75	489,110.75	1,401,419.37
Other comprehensive income (net of tax) attributable to minority shareholders	-84,212.96	144,975.09	-561,995.28	120,225.92	356,037.53
V. Total comprehensive income	106,466,077.84	49,997,247.61	338,713,843.14	362,599,783.00	224,042,522.82
Total comprehensive income attributable to the shareholders of parent company	101,150,827.94	42,655,580.60	317,022,111.80	339,330,065.26	198,574,119.83
Total comprehensive income attributable to the minority shareholders	5,315,249.90	7,341,667.01	21,691,731.34	23,269,717.74	25,468,402.99
VI. Earnings per share					
(I) Basic earnings per share	0.16	0.14	0.52	0.48	0.41
(II) Diluted earnings per share	0.16	0.14	0.52	0.48	0.41
VII. Amount of cash dividend (inclusive of tax)	–	–	94,105,117.05	74,623,133.64	62,185,944.70
Dividends per share	–	–	0.15	0.12	0.10

Save as disclosed above, there was no other item of any income or expense which was material in (a) the audited consolidated financial statements of the Group for each of the three financial years ended 31 December 2018, 2019 and 2020 and (b) the quarterly results for the three months ended 31 March 2020 and 31 March 2021.

II. Consolidated Financial Statements

The Company is required to set out or refer to in this circular the consolidated statements of profit or loss, the consolidated statements of financial position, the consolidated statements of cash flows, and any other primary statements as shown in the (i) audited consolidated financial statements of the Group for the year ended 31 December 2018, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the "**2018 Financial Statements**"); (ii) audited consolidated financial statements of the Group for the year ended 31 December 2019, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the "**2019 Financial Statements**"); (iii) audited consolidated financial statements of the Group for the year ended 31 December 2020 (the "**2020 Financial Statements**"); and (iv) the quarterly results for the three months ended 31 March 2021 (the "**2021 First Quarterly Results**").

The 2018 Financial Statements are set out from page 129 to 347 in the 2018 Annual Report which was published on 26 April 2019. The 2018 Annual Report is available on the websites of the Hong Kong Stock Exchange (http://www.hkexnews.com) and the Company (http://www.xhzy. com) and is accessible via the following hyperlink:

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltn20190426675.pdf

The 2019 Financial Statements are set out from page 126 to 355 in the 2019 Annual Report which was published on 27 April 2020. The 2019 Annual Report is available on the websites of the Hong Kong Stock Exchange (http://www.hkexnews.com) and the Company (http://www.xhzy. com) and is accessible via the following hyperlink:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042700799.pdf

The 2020 Financial Statements are set out from page 134 to 347 in the 2020 Annual Report which was published on 26 April 2021. The 2020 Annual Report is available on the websites of the Hong Kong Stock Exchange (http://www.hkexnews.com) and the Company (http://www.xhzy. com) and is accessible via the following hyperlink:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0426/2021042600998.pdf

The 2021 First Quarterly Results published on 9 April 2021 is available on the websites of the Hong Kong Stock Exchange (http://www.hkexnews.com) and the Company (http://www. xhzy. com) and is accessible via the following hyperlink:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0409/2021040900642.pdf

The above information is incorporated by reference into this circular and form part of this circular.

III. Analysis and explanation on changes in accounting policies

Detailed analysis and explanation of changes to important accounting policies in connection with the consolidated financial statements of the Company is set out in pages 202 to 219 inclusive of the annual report of the Company for the financial year ended 31 December 2018 and pages 218 to 229 inclusive of the annual report of the Company for the financial year ended 31 December 2019 respectively. There were no changes in accounting policies in connection with the consolidated financial statements of the Company during the financial year ended 31 December 2020.

(1) Impact of the New Revenue Standard on the Group

Since 1 January 2018, the Group has implemented the revised "Accounting Standards for Business Enterprises No. 14 – Revenue" (the "**New Revenue Standard**") issued by the Ministry of Finance on 5 July 2017. The New Revenue Standard stipulates that the enterprises implementing the New Revenue Standard should adjust the retained earnings and amounts of other items in financial statements at the time of the first implementation of the New Revenue Standard according to the cumulative impact number, while the information available for comparison period will not be adjusted. According to the assessment of the Group, the implementation of the New Revenue Standard by the Group will not have a material impact on the existing revenue recognition of the Group. Therefore, the Group is not required to make an adjustment to retained earnings at the beginning of 2018, but such change may affect the presentation of the financial statements. According to the implementation of the New Revenue Standard, the Group will re-classify the relevant advance receipts of RMB123,295,214.99 relating to the sales of goods to contract liabilities.

(2) Impact of the New Financial Instruments Standard on the Group

Since 1 January 2018, the Group has implemented the revised "Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments", "Accounting Standards for Enterprises No. 23 – Transfer of Financial Assets" and "Accounting Standards for Enterprises No. 24 – Hedging" issued by the Ministry of Finance in March 2017 together with the revised "Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments" issued by the Ministry of Finance in May 2017 (the "**New Financial Instruments Standard**"). The New Financial Instruments Standard stipulates that on the implementation date of the New Financial Instruments Standard, enterprises should classify and measure financial instruments in accordance with the provisions. If the requirements of the information previously available comparable financial statements is inconsistent with the requirements of the New Financial Instruments Standard, no adjustment is required. The difference between the original book value of the financial instrument and the new book value at the date of implementation of the New Financial Instruments Standard is included in retained earnings or other comprehensive income as of 1 January 2018.

For the listed equity investment held by the Group measured at fair value, the Group decided to designate the equity investment as a financial asset measured at fair value and its changes would be included in other comprehensive income for the purpose of investment management. Therefore, under the New Financial Instruments Standard, investments in other equity instruments investments have been reclassified and listed with no impact on retained earnings.

The New Financial Instruments Standard replaces the "incurred loss" model in the original financial instrument standard with the "expected credit loss" model. The "expected credit loss" model requires continuous evaluation of the credit risk of financial assets. Therefore, under the New Financial Instrument Standard, the original provision for impairment of financial assets was adjusted to the provision for loss as stipulated in the New Financial Instruments Standard on 1 January 2018. There was a reduction notes receivable and the accounts receivable in the consolidated balance sheet at the beginning of the year in the amount of RMB626,592.95 and reduction on other receivables at the beginning of the year in the amount of RMB472,304.02. There was corresponding increase in the deferred income tax assets at the beginning of 2018 by RMB243,612.90, reduction in the deferred income tax liabilities at the beginning of 2018 by RMB18,666.80, reduction in the surplus reserve at the beginning of 2018 by RMB10,577.86 and reduction in the undistributed profit at the beginning of 2018 by RMB811,655.15. Minority shareholders' equity at the beginning of 2018 was reduced by RMB14,384.26.

(3) Impact of the New Lease Standard on the Group

Since 1 January 2019, the Group has implemented the revised "Accounting Standards for Business Enterprises No. 21 – Leases" (the "**New Lease Standard**") issued by the Ministry of Finance on 7 December 2018. The New Lease Standard stipulates that on the implementation date of the New Lease Standard, enterprises shall adjust the retained earnings at the beginning of the year of the first implementation of the New Lease Standard and the amount of other relevant items in the financial statements based on the cumulative impact of the first implementation of the New Lease Standard, without adjusting the information for comparable periods.

For the operating leases before the implementation of the New Lease Standard, the Group measured the lease liabilities at the date of initial implementation of the New Lease Standard based on the present value of the residual lease payments and according to the discounted present value of the incremental borrowing rate of the lessee at the date of initial implementation of the New Lease Standard, and calculated the right-of-use asset according to the book value of each lease, assuming that the book value under the New Lease Standard has been applied since the beginning of the lease period (adopting the incremental borrowing rate of the lessee at the date of initial implementation of the New Lease Standard as the discount rate). The Group used the discounted present value of the incremental borrowing rate on the first implementation date of the New Lease Standard to measure the lease liability, and the weighted average of the incremental borrowing rate is 4.350%.

On 1 January 2019, the Group implemented the New Lease Standard and the amount of the right-of-use assets was increased by RMB2,232,117.00, the non-current liabilities due within one year was increased by RMB611,583.91, and the lease liabilities was increased by RMB1,620,533.09 in the consolidated balance sheet.

(4) Impact of other accounting standards on the Group

Since 10 June 2019, the Group has implemented the revised "Accounting Standards for Enterprises No. 22 – Exchange of Non-monetary Assets" issued by the Ministry of Finance on 9 May 2019. Since 17 June 2019, the Group has implemented the revised "Accounting Standards for Enterprises No. 12 – Debt Restructuring" issued by the Ministry of Finance on 16 May 2019.The Group's implementation of the aforesaid accounting standards will not have a material impact on the Group's financial statements and therefore the Group is not required to adjust the information at the beginning of 2019 or for comparable periods.

2. INDEBTEDNESS

As at 31 March 2021:

(A) the total amount of the outstanding loans of Company was RMB1,730,299,787.77, including guaranteed loans of RMB498,500,000.00, credit loans of RMB1,176,847,741.67 and sale and leaseback mortgage loans of RMB54,952,046.10;

(B) the outstanding amount of notes payable by the Company was RMB359,871,961.22, of which RMB83,547,755.97 was pledged to the bank for handling the acceptance bills of the bank; and

(C) the balance of the lease liabilities is RMB3,155,198.99.

Except for the above and apart from intra-group liabilities and normal trade payables in the ordinary course of business of the Group or otherwise disclosed in this circular, as at 31 March 2021, the Group had no loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or bonds, mortgages, loans or other similar indebtedness or commitments under finance leases, hire purchase commitments, liabilities under acceptance (other than normal trade bills), acceptance credits, guarantees or other material contingent liabilities.

3. MATERIAL CHANGE

The Directors confirm that there had been no material change in the financial or trading position or outlook of the Group since 31 December 2020 (being the date to which the latest published audited financial statements of the Group were made up) and up to and including the Latest Practicable Date.

4. PROPERTY INTERESTS OF THE GROUP AND ADJUSTED NET ASSET VALUE PER SHARE

Pursuant to Rule 11.1(f) of the Takeovers Code, the Company has engaged JLL, an independent professional valuer, to conduct and report on the valuation of the property interests of the Group as at 30 April 2021. Details of the property interests of the Group as at 30 April 2021 and the corresponding summary of values and valuation certification prepared by JLL are set out in its valuation report reproduced in Appendix VI to this circular. Based on the valuation conducted by JLL, the aggregate market value of the property interests of the Group as at 30 April 2021 was RMB1,633,670,000. Such valuation excludes property interests of the Group without proper title certificates as at the date of valuation (RMB780,870,000 in aggregate), of which JLL has attributed no commercial value for the purpose of their valuation report.

Pursuant to Rule 11.3 of the Takeovers Code, when a valuation of property interests of the Group is given in connection with an offer, a statement regarding any potential tax liability which would arise if such property interests were to be sold at the amount of the valuation as well as the likelihood of any liability crystalising is required to be included. In this regard, JLL noted that, pursuant to the relevant rules and regulations of tax laws in the PRC, the potential tax liabilities which would arise if the property interests of the Group specified in its valuation report were to be sold mainly include value added tax (5% of the capital gains for properties purchased before 30 April 2016; 9% of the transaction amount for properties purchased after 30 April 2016), land appreciation tax (30% to 60% of appreciated amount), income tax (25% of the capital gains after deducting the potential tax fee in effecting the sales), and stamp duty (0.05% of the transaction amount). Since the Group has no current intention to sell the properties (the subject of the valuation) as they are mainly occupied for production, the possibility of incurrence of such tax liabilities is remote.

Adjustment to the net asset value per Share arising from valuation of property interests of the Group

As a result of the valuation report produced by JLL, the aggregate market value of the property interest of the Group as at 30 April 2021 has been ascertained. Taking into account the valuation of property interests of the Group with and without proper title certificates conducted by JLL, the adjusted net asset value per Share has been adjusted from approximately RMB5.35 per Share to approximately RMB6.38 per Share, as set out below:

I. Value of property interests of the Group

Based on unaudited financial statements of the Group as at 31 March 2021:	RMB1,770,906,610.55
Based on valuation conducted by JLL (property interests with and without proper title certificates):	RMB2,414,540,000.00
Difference:	RMB643,633,389.45

II. Net asset value attributable to Shareholders (excluding minority interests)

Based on unaudited financial statements of the Group as at 31 March 2021:	RMB3,359,487,089.39
Adjusted to take into account valuation of property interests of the Group:	RMB4,003,120,478.84

III. Net asset value per Share (based on a share capital of 627,367,447 Shares)

Based on unaudited financial statements of the Group as at 31 March 2021:	RMB5.35
Adjusted to take into account valuation of property interest:	RMB6.38

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 circular also includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those relating to HHC and parties acting in concert with it), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statements in this circular misleading.

The directors of HHC jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those relating to the Company), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statements in this circular misleading.

2. MARKET PRICE

The table below shows the closing prices of the H Shares on the Hong Kong Stock Exchange and the A Shares on the Shenzhen Stock Exchange (i) on the last trading day of each of the six calendar months immediately preceding the date of the Announcement and up to the Latest Practicable Date; (ii) on the last trading day immediately preceding the date of the Announcement; (iii) on the date of the Announcement; and (iv) on the Latest Practicable Date:

Date	**Closing price per H Share** *HK$*	**Closing price per A Share** *RMB*
30 October 2020	3.81	10.25
30 November 2020	3.78	9.85
31 December 2020	3.55	9.38
29 January 2021	4.06	8.02
26 February 2021	5.05	8.44
31 March 2021	4.45	8.52
14 April 2021 *(the last trading date prior to the publication of the Announcement)*	4.80	8.67
30 April 2021	4.82	9.44
28 May 2021 *(the Latest Practicable Date)*	4.50	8.95

During the Relevant Period, the highest closing price of the H Shares as quoted on the Hong Kong Stock Exchange was HK$5.55 on 19 February 2021, and the lowest closing price of the H Shares as quoted on the Hong Kong Stock Exchange was HK$3.43 on 24 December 2020.

During the Relevant Period, the highest closing price of the A Shares as quoted on the Shenzhen Stock Exchange was RMB11.01 on 16 November 2020, and the lowest closing price of the A Shares as quoted on the Shenzhen Stock Exchange was RMB7.92 on 8 February 2021.

3. SHARE CAPITAL OF THE COMPANY

The registered and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Proposed A Shares Issue and (iii) immediately after completion of the Proposed A Shares Issue and exercise of all outstanding Share Options are set out below:

As at the Latest Practicable Date:

	Number of Shares
A Shares	432,367,447
H Shares	195,000,000
Total	627,367,447

Immediately after completion of the Proposed A Shares Issues

	Number of Shares
A Shares	468,651,917
H Shares	195,000,000
Total	663,651,917

Immediately after completion of the Proposed A Shares Issues and exercise of all outstanding Share Options

	Number of Shares
A Shares	**479,343,917**
H Shares	**195,000,000**
Total	**674,343,917**

The A Shares to be issued under the Proposed A Shares Issue when issued and fully paid, shall rank pari passu in all aspects amongst themselves with the A Shares in issue at the time of the issuance of such A Shares including, in particular, as to dividends, voting rights and return of capital.

Save for the 5,508,000 new A Shares issued upon the exercise of the Share Options, the Company has not carried out any fund raising exercises through issue of any equity securities since 31 December 2020 (being the end of the last financial year of the Company) and up to the Latest Practicable Date.

Save for the 10,692,000 outstanding Share Options, the Company has no other outstanding warrants, options or securities convertible into Shares as at the Latest Practicable Date.

4. DISCLOSURE OF DIRECTORS' INTERESTS

The interests of the Directors, Supervisors and chief executives in the issued share capital of the Company as at the Latest Practicable Date are set out as follows:

Name	Position	Number of A shares held	Capacity in which the shares are held	Approximate Percentage of such shares in the total issued shares of the Company as at the Latest Practicable Date
Mr. Zhang	Chairman	117,470 (Note 1)	Beneficial owner	0.078%
		198,000 (Note 2)	Person having a security	
		174,888 (Note 3)	interest in shares	
Mr. Du	Executive Director,	91,800 (Note 1)	Beneficial owner	0.067%
	General Manager	178,200 (Note 2)	Person having a security	
		151,568 (Note 3)	interest in shares	
Mr. Xu	Non-executive Director	74,800 (Note 1)	Beneficial owner	0.048%
		145,200 (Note 2)	Person having a security	
		81,614 (Note 3)	interest in shares	
Mr. He	Executive Director,	74,800 (Note 1)	Beneficial owner	0.054%
	Deputy General	145,200 (Note 2)	Person having a security	
	Manager	116,592 (Note 3)	interest in shares	
Ms. Hu Yanhua ("**Ms. Hu**")	Employee Supervisor	34,977 (Note 3)	Beneficial owner	0.006%

Notes:

1. Under the Share Option Scheme, the Company issued ordinary A Shares in the Company to the Directors during the first exercise period of Share Options in January 2021 in the following manner:

    - Mr. Zhang was issued with 102,000 A Shares (with an exercise price of RMB5.76 per Share Option) and taking into account the 15,470 A Shares held in his personal capacity, held 117,470 A Shares as at the Latest Practicable Date;
    - Mr. Du was issued with 91,800 A Shares, with an exercise price of RMB5.76 per Share Option;
    - Mr. Xu was issued with 74,800 A Shares, with an exercise price of RMB5.76 per Share Option; and
    - Mr. He was issued with 74,800 A Shares, with an exercise price of RMB5.76 per Share Option.

2. Number of outstanding Share Options granted to and not exercised by the above Directors under the Share Option Scheme.

3. The A Shares are held under the Employee Share Ownership Scheme of the Company of which each of Mr. Zhang, Mr. Du, Mr. Xu. Mr. He and Ms. Hu is a participant.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, none of the Directors, the Supervisors and chief executive of the Company or their respective associates had any interest or short positions in the shares of the Company, underlying shares or debentures of the Company or any associated corporations (as defined under the Part XV of the SFO) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange, or which are required to be disclosed under the Takeovers Code.

Mr. Cong Kechun, being a Director, is also an employee of HHC, the controlling Shareholder of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest in the Company's shares required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 and Part XV of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, (a) none of the Directors or Supervisors had entered or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation) and (b) none of the Directors or Supervisors had entered into a service contract with the Company or any of its subsidiaries or associated companies (as defined under the Takeovers Code), which (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Announcement; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

5. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2020, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to the Company or were proposed to be acquired or disposed of by or leased to the any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Company.

6. COMPETING INTERESTS

Mr. Cong Kechun (a Director) and Mr. Liu Chengtong (a Supervisor) are employees of HHC, a controlling Shareholder of the Company.

As at the Latest Practicable Date, none of the Directors or the Supervisors or their respective close associates (as defined under the Listing Rules) had any interest in other business which competes or is likely to compete with the business of the Group as if each of them were treated as a controlling shareholder of the Company under Rule 8.10 of the Listing Rules.

7. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Group were engaged in any litigation or arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACTS

As at the Latest Practicable Date, there are no material contracts, not being a contract entered into in the ordinary course of business carried on or intended to be carried on, entered into by members of the Group within the two years immediately preceding the date of the Announcement and up to and including the Latest Practicable Date.

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, there is no material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited accounts of the Company were made up.

10. EXPERT

The following is the qualification of the expert who have given its opinions or advices which are contained in this circular:

Name	Qualification
Octal Capital Limited	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	independent professional property valuer

As at the Latest Practicable Date, the above experts have given and has not withdrawn their written consent to the issue of this circular with the inclusion of its letter or opinion and reference to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above experts did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the above experts did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020, being the date to which the latest published audited accounts of the Company were made up.

11. ARRANGEMENT IN CONNECTION WITH THE NON-PUBLIC ISSUANCE OF A SHARES

As at the Latest Practicable Date,

(a) save for the A Shares Subscription Agreement, no agreement, arrangement or understanding (including any compensation arrangement) exists between HHC or parties acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Proposed A Shares Issue, the Specific Mandate, and the Whitewash Waiver;

(b) there was no benefit to be given to any Directors as compensation for loss of office or otherwise in connection with the Proposed A Shares Issue, the Specific Mandate, and the Whitewash Waiver;

(c) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of, or otherwise connected with, the Proposed A Shares Issue, the Specific Mandate, and the Whitewash Waiver;

(d) there was no material contract entered into by HHC or parties acting in concert with it in which any Director has a material personal interest; and

(e) there was no agreement, arrangement or understanding pursuant to which the A Shares to be issued to Hualu Investment under the Proposed A Shares Issue would be transferred, charged or pledged to any other persons.

12. DISCLOSURE OF SHAREHOLDINGS PURSUANT TO THE TAKEOVERS CODE

As at the Latest Practicable Date,

(a) HHC and parties acting in concert with it is held 229,835,060 shares of the Company in aggregate, representing approximately 36.63% of the total number of shares in issue of the Company, among which: (i) HHC directly held 204,864,092 A Shares; (ii) Hualu Investment, a wholly-owned subsidiary of HHC, directly held 4,143,168 A Shares; (iii) Well Bring, an indirect wholly-owned subsidiary of HHC, directly held 20,827,800 H Shares;

(b) none of the directors of HHC or parties acting in concert with HHC was interested in or owned or controlled any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options or derivatives in respect of the Shares and in the Company;

(c) none of HHC or parties acting in concert with it has received any irrevocable commitment from any person to vote for or against the resolutions to be proposed at the General Meeting and/or the Class Meetings to approve the Proposed A Shares Issue, the Whitewash Waiver, and/or the Specific Mandate;

(d) save for the A Shares Subscription Agreement and the transactions contemplated thereunder, none of HHC or parties acting in concert with it had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person;

(e) neither HHC nor any persons acting in concert with it had borrowed or lent any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company;

(f) the Company had no shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in HHC and Hualu Investment;

(g) none of the Directors was interested in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in HHC and Hualu Investment;

(h) save for Mr. Zhang, Mr. Du, Mr. Xu and Mr. He, none of the Directors was interested in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company;

(i) Mr. Zhang, Mr. Xu and Mr. He intend to vote in favour of the resolutions to approve the Proposed A Shares Issue and the Whitewash Waiver at the AGM and the A Share Class Meeting. Mr. Du, an executive Director and general manager of the Company who was responsible for handling of and negotiations concerning the Proposed A Shares Issue on behalf of the Company, will be required to abstain from voting in respect of the resolutions to approve the Proposed A Shares Issue and the Whitewash Waiver at the AGM and the A Share Class Meeting;

(j) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of "acting in concert", or the Company's associates by virtue of classes (2), (3) or (4) of the definition of "associate" under the Takeovers Code;

(k) no shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company was owned or controlled by any subsidiary of the Company or by a pension fund of any member of the Group or by an adviser to the Company as specified in class (5) of "acting in concert" or class (2) of the definition of "associate" in the Takeovers Code but excluding any exempt principal trader or exempt fund manager;

(l) no shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;

(m) there were no shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company which the Company or the Directors has/have borrowed or lent or sold;

(n) none of HHC or parties acting in concert with it has entered into any understanding, agreement or arrangement which constitutes special deal (as defined under Rule 25 of the Takeovers Code) with any of the Shareholders;

(o) none of the Company, its subsidiaries or associated companies has entered into any understanding, agreement, or arrangement which constitutes special deal (as defined under Rule 25 of the Takeovers Code) with any of the Shareholders;

(p) save for the aggregate subscription price payable under the A Shares Subscription Agreement, none of HHC or parties acting in concert with it has paid or will pay any other considerations, compensations or benefits in whatever form to the Company or any parties acting in concert with it in relation to the Proposed A Shares Issue;

(q) none of HHC or parties acting in concert with it will make any acquisitions or disposals of voting rights in the Company in the period between the Latest Practicable Date and the completion of the Proposed A Shares Issue;

(r) save for the Proposed A Shares Issue, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares or shares of any of HHC and parties acting in concert with it and which might be material to the transactions contemplated under the Proposed A Shares Issue or the Whitewash Waiver; and

(s) save for the A Shares Subscription Agreement, there are no agreements or arrangements to which HHC or parties acting in concert with it is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition under the Proposed A Shares Issue or the Whitewash Waiver.

13. DEALINGS IN SHARES

During the Relevant Period:

(a) save for the A Shares Subscription Agreement, neither HHC nor any parties acting in concert with it had dealt for value in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company;

(b) none of the directors of HHC had dealt for value in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company;

(c) there were no Shares or convertible securities, warrants, options and derivatives of the Company which HHC or parties acting in concert with it or the Directors has borrowed or lent;

(d) the Company had not dealt for value in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives of HHC or Hualu Investment;

(e) save as disclosed in the paragraph headed "Disclosure of Directors' Interests" as set out in this Appendix VIII regarding the exercise of Share Options by Mr. Zhang, Mr. Du, Mr. Xu and Mr. He, none of the Directors had dealt for value in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives of HHC or Hualu Investment or any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives of the Company; and

(f) none of the subsidiaries of the Company had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

14. MISCELLANEOUS

(a) The registered office of the Company is at Chemical Industry Area of Zibo Hi-tech Industry Development Zone, Zibo City, Shandong Province, PRC.

(b) The Hong Kong branch share registrar and transfer office of the Company (for H Shares) is Hong Kong Registrars Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The company secretary of the Company is Mr. Cao Changqiu.

(d) HHC is a state-owned company incorporated in the PRC. The registered office of HHC is 22nd Floor, Building A, Huachuang Ceremony Center, 219 Shunhai Road, Lixia District, Jinan City, Shandong Province, China.

(e) The directors of HHC are Mr. Fan Jun, Mr. Li Wei, Mr. Ding Zhenbo, Mr. Sun Youmin, Mr. Zhang Yuming, and Mr. Lou Hongxiang.

(f) HHC is the controlling Shareholder of the Company. The Shares in HHC are owned:

(i) as to 8.45% by Shandong Social Security Fund Council;

(ii) as to 59.16% by Shandong Provincial State-owned Assets Supervision and Administration Commission;

(iii) as to 12.17% by Shandong Finance & Finance Investment Group Co., Ltd., which in turn is indirectly owned by Shandong Provincial Department of Finance;

(iv) as to 3.32% by Shandong Development Investment Holding Group Co., Ltd., which in turn is indirectly owned by Shandong Provincial State-owned Assets Supervision and Administration Commission;

(v) as to 16.90% by Shandong Guohui Investment Co., Ltd., which in turn is wholly owned by Shandong Provincial State-owned Assets Supervision and Administration Commission.

(g) Hualu Investment is a company incorporated in the PRC with limited liability. The registered office of Hualu Investment is 21st Floor, Hua Chuang Guan Li Center No.2, Shun Hai Road No.219, Jinan City Hi-Tech Industry Development Zone, Shandong Province, China.

(h) The director of Hualu Investment is Mr. Zhang Chengyong.

(i) The shares in Hualu Investment are wholly owned by HHC and the details of the ultimate controlling shareholders of HHC are set out in item (f).

(j) Well Bring is a company incorporated in the Hong Kong with limited liability. The registered office of Well Bring is 42nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

(k) The directors of Well Bring are Mr. Cheng Xuezhan, Mr. Bai Xianzhong and Mr. Zhao Jiequan.

(l) The shares in Well Bring are wholly owned by China Shandong Group Ltd. which in turn is directly and indirectly owned by HHC and the details of the ultimate controlling shareholders of HHC are set out in item (f).

(m) The address of the Independent Financial Adviser is situated at 801- 805, 8th Floor, Nan Fung Tower, 88 Connaught Road Central, Hong Kong.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at (i) the office of Charltons, 12th Floor, Dominion Centre, 43-59 Queen's Road East, Hong Kong during normal business hours from 9:30 a.m. to 5:30 p.m., (ii) on the website of the Company at http://xhzy.com and (iii) the website of the SFC at www.sfc.hk from the date of this circular up to and including the date of the AGM and the Class Meetings.

(a) the Articles of Association;

(b) Articles of Association of HHC;

(c) the annual reports of the Company for the financial years ended 31 December 2018, 31 December 2019 and 31 December 2020;

(d) the quarterly results of the Company for the three months ended 31 March 2020 and 31 March 2021;

(e) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

(f) the letter from the Code Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Code Independent Board Committee" in this circular;

(g) the letter from the Listing Rules Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Listing Rules Independent Board Committee" in this circular;

(h) the letter from the Independent Financial Adviser to the Code Independent Board Committee, Listing Rules Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Octal Capital Limited" in this circular;

(i) the full property valuation report of the property interests of the Group (including the valuation certificates) from JLL, the text of which is set out in Appendix VI to this circular;

(j) the consent letter from the experts referred to in the paragraph headed "Expert" in this Appendix; and

(k) this circular.

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 THE ANNUAL GENERAL MEETING AND OF MEETING OF THE SHAREHOLDERS OF H SHARES

NOTICE IS HEREBY GIVEN that an annual general meeting ("**AGM**") of Shandong Xinhua Pharmaceutical Company Limited (the "**Company**"), the Class Meeting (the "**A Shareholders' Class Meeting**") of the Shareholders of A Shares (the "**A Shareholders**") and the Class Meeting (the "**H Shareholders Class Meeting**"; together with the AGM and the A Shareholders' Class Meeting, the "**Meetings**") of the Shareholders of H Shares (the "**H Shareholders**"; together with the A Shareholders, the "**Shareholders**") of 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 Wednesday, 30 June 2021 from 2:00 p.m. for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions and special resolution.

The details of the Meetings are provided as follows:

A. CONVENING OF THE AGM

1. Time of the Meetings

The AGM and the H Shareholders Class Meeting will commence at 2:00 p.m. and 4:00 p.m. (or immediately after the conclusion or adjournment of the A Shareholders' Class Meeting) respectively on Wednesday, 30 June 2021.

2. Venue of the physical Meetings

The Meetings 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**").

3. Convenor

The Meetings were convened by the board of directors of the Company (the "**Board**").

4. Ways of conducting the Meetings

The A Shareholders or the duly appointed proxies thereof may vote at the AGM and the A Shareholders' Class Meeting by way of physical voting or online voting, whereas the H Shareholders or the duly appointed proxies thereof may vote at the AGM and the H Shareholders Class Meeting by way of physical voting.

5. Eligible attendees

(1) Shareholders

The AGM:

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 Tuesday, 22 June 2021.

For information on the attendance of the A Shareholders, please refer to the notice(s) to A Shareholders in respect of the AGM and A Shareholders' Class Meeting 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 of the Company ("**H Shares**") at 4:30 p.m. on Tuesday, 15 June 2021.

The H Shareholders Class Meeting:

All the H Shareholders whose names appear on the register of members of H Shares on Tuesday, 15 June 2021 at 4:30 p.m..

(2) Proxies duly appointed by the Shareholders;

(3) Directors ("**Directors**"), supervisors ("**Supervisors**") and senior management (with the meaning ascribed thereto under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), the "**Senior Management**") of the Company;

(4) Legal advisors to the Company; and

(5) Auditors of the Company.

B. MATTERS FOR CONSIDERATION AND APPROVAL AT THE AGM

ORDINARY RESOLUTIONS

1. To consider and approve the resolution in relation to the shareholders' return plan for the next three years of the Company.

2. To review and approve the annual report of the Company for the year 2020.

3. To review and approve the report of the Board for the year 2020.

4. To review and approve the report of the supervisory committee of the Company for the year 2020.

5. To review and approve the audited financial statements of the Company for the year 2020.

6. To review and approve the profit distribution plan for the year 2020.

7. To review and approve the re-appointment of ShineWing Certified Public Accountants (Special General Partnership) as the Company's auditors for the year 2021 and authorise the Board to fix their remuneration.

8. To review and approve the remuneration of the Directors and the Supervisors for the year 2021.

SPECIAL RESOLUTIONS

1. To consider and approve the resolution in relation to the Company's compliance with the conditions of the proposed non-public issuance of a total of 36,284,470 new A shares of the Company ("**A Shares**") to Hualu Investment Co., Ltd. ("**Hualu Investment**") pursuant to a subscription agreement dated 14 April 2021 and entered into between the Company and Hualu Investment (the "**Proposed A Shares Issue**").

2. To consider and approve the resolution in relation to the plan for the Proposed A Shares Issue:

   "**THAT**

   each of the following items in relation to the revised plan for the Proposed A Shares Issue be and is hereby approved, confirmed and ratified, and be implemented conditional upon approvals and/or authorisations having been obtained from the relevant authorities:

Each of the following items in relation to the Proposed A Shares Issue will be considered and approved, and be implemented conditional upon approvals and/or authorisations having been obtained from the relevant authorities:

(i) class and par value of A Shares to be issued;

(ii) method and timing of the issuance of A Shares;

(iii) subscriber and method of subscription by the subscriber;

(iv) pricing principle and issue price of the A Shares to be issued;

(v) number of A Shares to be issued;

(vi) the lock-up period applicable to the A Shares that will be issued;

(vii) the amount of total funds to be raised from the issuance of A Shares and the proposed use of proceeds;

(viii) listing place of A Shares to be issued;

(ix) validity period of the resolutions regarding the Proposed A Shares Issue; and

(x) arrangement concerning retained but undistributed profits of the Company prior to the Proposed A Shares Issue.

3. To consider and approve the resolution in relation to the Proposal for Non-public Issuance of A Shares.

4. To consider and approve the resolution in relation to the Feasibility Analysis Report on the Use of Proceeds from the Proposed A Shares Issue.

5. To consider and approve the resolution in relation to the Report on Use of Proceeds from Previous Fund Raising Activities of the Company.

6. To consider and approve the resolution in relation to the subscription of A Shares under the Proposed A Shares Issue which constitutes connected transaction of the Company.

7. To consider and approve the resolution in relation to the conditional A Share subscription agreement (the "**A Shares Subscription Agreement**") entered into between the Company and Hualu Investment on 14 April 2021:

"**THAT**

the A Shares Subscription Agreement entered into between the Company and Hualu Investment on 14 April 2021 (pursuant to which the Company has conditionally agreed to issue and Hualu Investment has agreed to subscribe for 36,284,470 A Shares under the Proposed A Shares Issue at a total subscription price of RMB250,000,000) and the transactions contemplated therein are hereby approved, confirmed and ratified."

8. To consider and approve the resolution in relation to the dilution of current return as a result of the Proposed A Shares Issue and the adoption of remedial measures.

9. To consider and approve the resolution in relation to the Specific Mandate to the Board to deal with matters related to the Proposed A Shares Issue:

"**THAT**

the Board be and is hereby granted a specific mandate to exercise powers of the Company to allot and issue 36,284,470 A Shares pursuant to the Proposed A Shares Issue to Hualu Investment at an issue price of RMB6.89 per A Share, and the Board be and is hereby authorised to do all acts and matters and sign, execute or deliver such documents (including the affixation of the common seal of the Company thereon) and take all such steps as the Board in its opinion deem necessary, desirable or expedient to implement or give effect to the Specific Mandate, where the scope of authorisation includes but is not limited to:

(i) formulating and implementing the specific plan for the Proposed A Shares Issue according to the specific circumstances, and determining the target subscriber, issue price, number of A Shares to be issued, time of issue, starting and ending date of the issue, termination of the issue, method of subscription, subscription ratio and all other matters related to the Proposed A Shares Issue in accordance with the resolutions passed at the Meetings;

(ii) preparing and filing the application documents in relation to the Proposed A Shares Issue in accordance with the requirements of the China Securities Regulatory Commission ("**CSRC**"), and responding to the relevant questions, revising and supplementing the application documents based on the feedback from the CSRC's audit department and the Issuance Examination Committee;

(iii) handling matters relating to the establishment of special deposit account for raised funds;

(iv) preparing, revising, supplementing, signing, submitting, reporting and executing all agreements and documents relating to the Proposed A Shares Issue in accordance with the relevant provisions of national laws, regulations and regulatory documents and resolutions of the Meetings;

(v) adjusting the specific arrangements for the use of proceeds within the scope of the resolutions of the Meetings;

(vi) adjusting the specific plan and matters relating to the Proposed A Shares Issue if laws, regulations, regulatory documents and CSRC's policy on non-public issuance of shares, or the market conditions have changed, except for matters that require new resolutions of the Meetings under the relevant laws, regulations and articles of association of the Company (the "**Articles of Association**");

(vii) after completion of the Proposed A Shares Issue, handling matters relating to registration, lock-up and listing of the A Shares issued under the Proposed A Shares Issue in the Shenzhen Stock Exchange and China Securities Depository and Clearing Co., Ltd. Shenzhen Branch;

(viii) amending the relevant provisions in the Articles of Association of the Company to reflect the Company's new total share capital and share capital structure after the completion of the Proposed A Shares Issue in accordance with the situation of the Proposed A Shares Issue, reporting to the relevant governmental departments and supervision institutions for approval, and completing the procedure relating to the change in industrial and commercial registration;

(ix) delegating to the chairman of the Board or other persons authorised by him to decide, handle and process all of the abovementioned matters relating to the Proposed A Shares Issue;

(x) handling other specific matters relating to the Proposed A Shares Issue except for those matters that require new resolutions of the Meetings under the relevant laws, regulations and Articles of Association of the Company, including but not limited to amending, supplementing and signing all agreements and documents related to the Proposed A Shares Issue.

The above authorisation shall be effective for 12 months from the date of the passing of the resolution at the Meetings."

10. To consider and approve the resolution in relation to the application of the waiver in respect of the general offer obligation over the A Shares by Hualu Investment and parties acting in concert with it to be triggered as a result of the Proposed A Shares Issue under the relevant laws and regulations in the PRC.

11. To consider and approve the resolution in relation to the application for the Whitewash Waiver:

“**THAT**

subject to the granting of a waiver by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate of such Executive Director pursuant to Note 1 on dispensations from Rule 26 of the Code on Takeovers and Mergers of Hong Kong of the obligation of Hualu Holdings Co, Ltd. (“**HHC**”) and parties acting in concert with it to make a general offer for all Shares and other equity share capital of the Company (other than those already owned or agreed to be acquired by HHC and parties acting in concert with it) as a result of the allotment and issue of A Shares under the A Shares Subscription Agreement (the “**Whitewash Waiver**”): (i) the Whitewash Waiver be and is hereby approved, confirmed and ratified; and (ii) any one Director be and is hereby authorised to do all acts and matters and sign such documents (including the affixation of the common seal of the Company thereon) and take all such steps as the Director may in his or her opinion deem necessary, desirable or expedient to implement or give effect to the Whitewash Waiver.”

12. To consider and approve the proposed amendments to the Articles of Association of the Company. *Note 11*

“**THAT**

the proposed amendments to the Articles of Association of the Company be and are hereby approved and the Board be and is hereby authorised to deal with on behalf of the Company all relevant procedures and matters to effect the amendments and to make any appropriate adjustments thereto whenever necessary in the process of submitting the same for the approval of and as required from time to time by the relevant regulatory authorities including without limitation to the administration authorities of industry and commerce and the Shenzhen Stock Exchange.”

(For details of the above Special Resolutions No. 1 to 11, please refer to the announcements of the Company dated 14 April 2021.)

C. MATTERS FOR CONSIDERATION AND APPROVAL AT THE H SHAREHOLDERS CLASS MEETING

SPECIAL RESOLUTIONS

1. To consider and approve the resolution in relation to the plan for the Proposed A Shares Issue:

"THAT

each of the following items in relation to the revised plan for the Proposed A Shares Issue be and is hereby approved, confirmed and ratified, and be implemented conditional upon approvals and/or authorisations having been obtained from the relevant authorities:

Each of the following items in relation to the Proposed A Shares Issue will be considered and approved, and be implemented conditional upon approvals and/or authorisations having been obtained from the relevant authorities:

(i) class and par value of A Shares to be issued;

(ii) method and timing of the issuance of A Shares;

(iii) subscriber and method of subscription by the subscriber;

(iv) pricing principle and issue price of the A Shares to be issued;

(v) number of A Shares to be issued;

(vi) the lock-up period applicable to the A Shares that will be issued;

(vii) the amount of total funds to be raised from the issuance of A Shares and the proposed use of proceeds;

(viii) listing place of A Shares to be issued;

(ix) validity period of the resolutions regarding the Proposed A Shares Issue; and

(x) arrangement concerning retained but undistributed profits of the Company prior to the Proposed A Shares Issue.

2. To consider and approve the resolution in relation to the Proposal for Non-public Issuance of A Shares.

3. To consider and approve the resolution in relation to the Feasibility Analysis Report on the use of proceeds from the Proposed A Shares Issue.

4. To consider and approve the resolution in relation to the subscription of A Shares under the Proposed A Shares Issue which constitutes connected transaction of the Company.

5. To consider and approve the resolution in relation to the conditional A Shares Subscription Agreement entered into between the Company and Hualu Investment on 14 April 2021:

   "**THAT**

   the A Shares Subscription Agreement entered into between the Company and Hualu Investment on 14 April 2021 (pursuant to which the Company has conditionally agreed to issue and Hualu Investment has agreed to subscribe for 36,284,470 A Shares under the Proposed A Shares Issue at a total subscription price of RMB250,000,000) and the transactions contemplated therein are hereby approved, confirmed and ratified."

6. To consider and approve the resolution in relation to the Specific Mandate to the Board to deal with matters related to Proposed A Shares Issue:

   "**THAT**

   the Board be and is hereby granted a specific mandate to exercise powers of the Company to allot and issue 36,284,470 A Shares pursuant to the Proposed A Shares Issue to Hualu Investment at an issue price of RMB6.89 per A Share, and the Board be and is hereby authorised to do all acts and matters and sign, execute or deliver such documents (including the affixation of the common seal of the Company thereon) and take all such steps as the Board in its opinion deem necessary, desirable or expedient to implement or give effect to the Specific Mandate, where the scope of authorisation includes but is not limited to:

   (i) formulating and implementing the specific plan for the Proposed A Shares Issue according to the specific circumstances, and determining the target subscriber, issue price, number of A Shares to be issued, time of issue, starting and ending date of the issue, termination of the issue, method of subscription, subscription ratio and all other matters related to the Proposed A Shares Issue in accordance with the resolutions passed at the Meetings;

(ii) preparing and filing the application documents in relation to the Proposed A Shares Issue in accordance with the requirements of the CSRC, and responding to the relevant questions, revising and supplementing the application documents based on the feedback from the CSRC's audit department and the Issuance Examination Committee;

(iii) handling matters relating to the establishment of special deposit account for raised funds;

(iv) preparing, revising, supplementing, signing, submitting, reporting and executing all agreements and documents relating to the Proposed A Shares Issue in accordance with the relevant provisions of national laws, regulations and regulatory documents and resolutions of the Meetings;

(v) adjusting the specific arrangements for the use of proceeds within the scope of the resolutions of the Meetings;

(vi) adjusting the specific plan and matters relating to the Proposed A Shares Issue if laws, regulations, regulatory documents and CSRC's policy on non-public issuance of shares, or the market conditions have changed, except for matters that require new resolutions of the Meetings under the relevant laws, regulations and Articles of Association of the Company;

(vii) after completion of the Proposed A Shares Issue, handling matters relating to registration, lock-up and listing of the A Shares issued under the Proposed A Shares Issue in the Shenzhen Stock Exchange and China Securities Depository and Clearing Co., Ltd. Shenzhen Branch;

(viii) amending the relevant provisions in the Articles of Association of the Company to reflect the Company's new total share capital and share capital structure after the completion of the Proposed A Shares Issue in accordance with the situation of the Proposed A Shares Issue, reporting to the relevant governmental departments and supervision institutions for approval, and completing the procedure relating to the change in industrial and commercial registration;

(ix) delegating to the chairman of the Board or other persons authorised by him to decide, handle and process all of the abovementioned matters relating to the Proposed A Shares Issue;

(x) handling other specific matters relating to the Proposed A Shares Issue except for those matters that require new resolutions of the Meetings under the relevant laws, regulations and Articles of Association of the Company, including but not limited to amending, supplementing and signing all agreements and documents related to the Proposed A Shares Issue.

The above authorisation shall be effective for 12 months from the date of the passing of the resolution at the Meetings ."

(For details of the above Special Resolutions, please refer to the announcements of the Company dated 14 April 2021.)

D. DOCUMENTS AVILABLE FOR INSPECTION

1. Minutes of the second meeting of the tenth session of the Board;

2. Minutes of the second meeting of the tenth session of the supervisory committee; and

3. Resolutions passed at the 2021 second extraordinary meeting of the tenth session of the Board.

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

31 May 2021, Zibo, PRC

Notes:

1. The register of members of the Company will be closed from 16 June 2021 to 30 June 2021 (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 Hong Kong Registrars Limited at 4:30 p.m. on Tuesday, 15 June 2021 and on the register of members kept by the China Securities Registrar Company Limited Shenzhen Branch after the closing of Shenzhen Stock Exchange on Tuesday, 22 June 2021 and the Directors, the supervisors and the senior management of the Company are entitled to attend the AGM or any adjournment thereof.

2. H Shareholders who wish to attend the AGM 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 Tuesday, 15 June 2021.

   The address of the share registrar for the Company's H Shares:
   Hong Kong Registrars Limited
   17M Floor, Hopewell Centre
   183 Queen's Road East, Wanchai, Hong Kong

3. Shareholders who intend to attend the AGM and/or H Shareholders Class Meeting 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 29 June 2021, by hand, by post or by facsimile. The written reply will not affect the right of the Shareholders to attend and vote at the AGM and/or H Shareholders Class Meeting.

4. Shareholders entitled to attend and vote at the AGM and/or H Shareholders Class Meeting 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 AGM and/or H Shareholders Class Meeting. When a Shareholder appoints more than one proxy, such proxies may only vote by way of poll.

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 AGM and/or H Shareholders Class Meeting. The completion and deposit of a form of proxy will not preclude any Shareholder from attending and voting in person at the AGM and/or H Shareholders Class Meeting or any adjournment thereof.

6. Shareholders or their proxies shall present proof of identity upon attending the AGM and/or H Shareholders Class Meeting. Should a proxy be appointed, the proxy shall also present his/her form of proxy.

7. The Meetings are expected to last half a day. Shareholders who attend any of the Meetings 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 AGM and the A Shareholders Class Meeting, 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 proposed amendments to the articles of association of the Company have been set out in the announcement of the Company dated 30 March 2021 and the circular dated 31 May 2021.

As at the date hereof, the Board comprises:

Executive Directors:
Mr. Zhang Daiming *(Chairman)*
Mr. Du Deping
Mr. He Tongqing

Independent Non-executive Directors:
Mr. Pan Guangcheng
Mr. Zhu Jianwei
Mr. Lo Wah Wai

Non-executive Directors:
Mr. Xu Lie
Mr. Cong Kechun