



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

*Registered address:*

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

*Non-executive Directors:*

Mr. Xu Lie  
Mr. Cong Kechun

*Principal place of business:*

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

*Independent Non-executive Directors:*

Mr. Pan Guangcheng  
Mr. Zhu Jianwei  
Mr. Lo Wah Wai

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:

<b>Class and par value of Shares to be issued</b>	: 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.
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**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 **AppendixIV** 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%
<b>Subtotal</b>	<b>432,367,447</b>	<b>68.92%</b>	<b>468,651,917</b>	<b>70.62%</b>	<b>479,343,917</b>	<b>71.08%</b>
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	-	-	-	-	-	-
<b>Subtotal</b>	<b>195,000,000</b>	<b>31.08%</b>	<b>195,000,000</b>	<b>29.38%</b>	<b>195,000,000</b>	<b>28.92%</b>

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%
<b>Total number of Shares in issue</b>	<b>627,367,447</b>	<b>100%</b>	<b>663,651,917</b>	<b>100%</b>	<b>674,343,917</b>	<b>100%</b>

*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:

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

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:

<b>A Shares</b>	<b>H Shares</b>
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:

<b>Date</b>	<b>A Shares</b>	<b>H Shares</b>
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:

$$\begin{aligned} \text{BP} &= \frac{\text{ACP (A Shares)} \times \text{number of A Shares} + \text{ACP (H Shares)} \times \text{number of H Shares} \times \text{FX rate}^*}{\text{Total number of issued Shares immediately before the Proposed A Shares issue}} \\ &= \frac{\text{RMB8.78} \times 432,367,447 \text{ A Shares} + \text{HK\$4.80} \times 195,000,000 \text{ H Shares} \times 0.8408}{627,367,447 \text{ Shares}} \\ &= \text{approximately RMB7.31} \end{aligned}$$

\* 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:

$$\begin{aligned} \text{TDP} &= \frac{\text{BP} \times \text{Outstanding share capital before Proposed A Shares Issue} + \text{Total funds to be raised}}{\text{Enlarged share capital after Proposed A Shares issue}} \\ &= \frac{\text{RMB7.31} \times 627,367,447 \text{ Shares} + \text{RMB250,000,000}}{663,651,917 \text{ Shares}} \\ &= \text{approximately RMB7.29} \end{aligned}$$

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

$$\begin{aligned} \text{Theoretical dilution effect} &= 1 - \frac{\text{TDP}}{\text{BP}} \times 100\% \\ &= 1 - \frac{\text{RMB7.29}}{\text{RMB7.31}} \times 100\% \\ &= \text{approximately } 0.27\% \end{aligned}$$

## **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](http://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

A handwritten signature in black ink, appearing to be 'Zhang Daiming', written in a cursive style.

Zhang Daiming  
Chairman

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